

## FRANCHISE DISCLOSURE DOCUMENT



Get A Better Water Habit!®

**Watermill Express Franchising, LLC**

(a Colorado limited liability company)

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Watermill Express franchisees operate drive-up, self-serve vending outlets that dispense pure drinking water and ice 24 hours per day, seven days per week ("**Watermill Express Station(s)**") or "**Station(s)**").

The total initial investment necessary to begin operation of a Watermill Express franchise ranges from \$471,800 to \$596,400 for three (3) Watermill Express Stations. This includes \$392,000 to \$421,800 which must be paid to the franchisor or its affiliates. The total initial investment necessary to begin operation of a Watermill Express franchise ranges from \$142,400 to \$211,340 for each additional station after the first three (3) Watermill Express Stations. This includes \$116,500 to \$155,140 which must be paid to the franchisor or its affiliates.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the Franchise Development Department at 1177 South Fourth Avenue, Brighton, Colorado 80601, (303) 659-1573.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

**There may also be laws on franchising in your state. Ask your state agencies about them.**

**Issuance Date: April 26, 2019**

## STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed in **Exhibit A** for information about the franchisor, or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY MEDIATION/LITIGATION ONLY IN COLORADO. OUT-OF-STATE MEDIATION /LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO MEDIATE/LITIGATE WITH US IN COLORADO THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT COLORADO LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. THE FRANCHISEE WILL BE REQUIRED TO MAKE AN ESTIMATED INITIAL INVESTMENT RANGING FROM \$471,800 TO \$596,400. THIS AMOUNT EXCEEDS THE FRANCHISOR'S MEMBER EQUITY AS OF DECEMBER 31, 2018 WHICH IS (\$2,150).
4. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

**We reserve the right to use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source is our agent and represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.**

**Effective Dates: See next page for state effective dates.**

## STATE EFFECTIVE DATES

The following states require the disclosure document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This disclosure document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

### Effective Dates for States Requiring Registration and Notice Filings:

STATE	EFFECTIVE DATE
CALIFORNIA	NOT REGISTERED
FLORIDA	April 24, 2019
HAWAII	NOT REGISTERED
ILLINOIS	April 30, 2019
INDIANA	NOT REGISTERED
KENTUCKY	April 2, 2015*
MARYLAND	NOT REGISTERED
MICHIGAN	Pending
MINNESOTA	July 1, 2019
NEBRASKA	October 26, 2011*
NEW YORK	Pending
NORTH DAKOTA	NOT REGISTERED
RHODE ISLAND	NOT REGISTERED
SOUTH DAKOTA	NOT REGISTERED
TEXAS	March 11, 2004*
VIRGINIA	NOT REGISTERED
WASHINGTON	Pending
WISCONSIN	May 1, 2019

\*Denotes One-Time Filing, perpetual registration

**NOTICE REQUIRED BY  
STATE OF MICHIGAN**

**THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.**

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that the franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its terms except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least six (6) months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type or under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

**The fact there is a notice of this offering on file with the attorney general does not constitute approval, recommendation, or endorsement by the attorney general.**

Any questions regarding this notice should be directed to the Department of Attorney General, State of Michigan, 670 Williams Building, Lansing, Michigan 48913, telephone (517) 373-7117.

**THE MICHIGAN NOTICE APPLIES ONLY TO FRANCHISEES WHO ARE RESIDENTS OF MICHIGAN OR LOCATE THEIR FRANCHISES IN MICHIGAN.**

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### **EXHIBITS:**

Exhibit A	List of State Administrators and Agents for Service of Process
Exhibit B	Franchise Agreement
Exhibit C	Area Development Agreement
Exhibit D	Financial Statements
Exhibit E	List of Current and Former Franchisees/Developers
Exhibit F	State Addenda and Agreement Riders
Exhibit G	Franchise Operations Manual Table of Contents
Exhibit H	Contracts for use with the Watermill Express Franchise
Exhibit I	Franchise Disclosure Questionnaire
Exhibit J	Receipt

APPLICABLE STATE LAW MAY REQUIRE ADDITIONAL DISCLOSURES REGARDING THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT OR STATE SPECIFIC AMENDMENTS TO THE FRANCHISE AGREEMENT. THESE ADDITIONAL DISCLOSURES OR STATE SPECIFIC AMENDMENTS, IF ANY, APPEAR IN THE STATE ADDENDA AT **EXHIBIT F**.

## ITEM 1

### THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this Franchise Disclosure Document, “**WEF**” and “**we**,” “**us**,” and “**our**” means Watermill Express Franchising, LLC, the franchisor. “**You**,” “**your**,” and “**Franchisee**” means the person who buys the franchise from Watermill Express Franchising, LLC, and its owners if the Franchisee is a business entity.

#### The Franchisor, its Parent, Predecessors, and Affiliates

WEF is a Colorado limited liability company formed on December 4, 2003. We operate under the name Watermill Express Franchising, LLC and Watermill Express and no other name. Our principal business address is 1177 South Fourth Avenue, Brighton, Colorado 80601. We began offering franchises for Watermill Express Stations in August 2007. We have not and do not operate any franchises like those described in this Franchise Disclosure Document, or in any other line of business. We do not conduct any other business other than franchising Watermill Express Stations. We do not have any predecessors that are required to be disclosed in this Franchise Disclosure Document.

Our parent company is Watermill Express, LLC (“**WEL**”). WEL is a Delaware limited liability company formed on July 31, 2003 and shares our principal business address. WEL manufactures and operates Watermill Express Stations. WEL does not and has not offered franchises in any line of business. Our parent may also be considered our affiliate in this disclosure document.

Our agent for service of process in Colorado is Watermill Express, LLC at 1177 South Fourth Avenue, Brighton, Colorado 80601. Our agents for service of process for other states are identified by state in **Exhibit A**. If a state is not listed, we have not appointed an agent for service of process in that state in connection with the requirements of franchise laws. There may be states in addition to those listed above in which we have appointed an agent for service of process. There may also be additional agents appointed in some of the states listed.

#### The Franchise

We offer franchises (“**Watermill Express Franchise(s)**” or “**Franchise(s)**”) for the use of our “**WATERMILL EXPRESS**” trademarks, trade names, service marks and logos (“**Marks**”) for the operation of Watermill Express Stations. Watermill Express Stations are unmanned stations which require routine maintenance and are computer monitored. The Watermill Express Stations are drive-up, self-serve outlets vending pure drinking water and ice into customer-supplied containers made possible through our exclusive “12-Step Water Perfection Program.” The 12-Step Water Perfection Program is built around our proprietary water purification software system that enables the filtration of water through a hook-up to any available state or federally approved drinking water supply. These fully automated stations are computer monitored and physically serviced several times a week by a trained route service representative. The establishment, development, promotion, and operation of the Watermill Express Stations, including the 12-Step Water Perfection Program, is collectively known as the “**Dolifka System**.” The Dolifka System is owned by our co-founders and Co-CEOs, Lani L. Dolifka and Donald P. Dolifka. Franchisees must operate a minimum of three (3) Watermill Express Stations. You must sign our standard franchise agreement attached to this Franchise Disclosure Document as **Exhibit B (“Franchise Agreement”)** and our area developer agreement attached to this Franchise Disclosure Document as **Exhibit C (“Area Development Agreement”)**. Under the Area Development Agreement, you have the right to develop multiple Watermill Express Stations in a designated development area (“**Development Territory**”) in accordance with a specified development schedule (“**Development Schedule**”). The Development Territory will be established based on the experience of the franchisee, consumer demographics of the Development

Territory, geographical area, city, county and other boundaries. You will be required to sign our then-current form of Watermill Express franchise agreement for each Watermill Express Station that you develop under the Area Development Agreement. You may operate one Watermill Express Station per Franchise Agreement.

### Market and Competition

Watermill Express Stations service the needs of the general public. While Watermill Express Stations operate year-round, sales of water and ice are greater during the summer months and should be considered seasonal. The market for the goods and services offered by Watermill Express Stations is developed and competitive. Watermill Express Stations compete with other businesses including home delivery services, in-home filtration systems, “**water stores**,” supermarkets and convenience stores, and other water and ice vending machines. You may even experience competition from WEL or other affiliates selling water through alternative channels of distribution. You will also face normal business risks that could have an adverse effect on your Watermill Express Stations such as industry developments, pricing policies of competitors, weather, regulatory requirements and supply and demand.

### Regulations Affecting the Franchise

Your Watermill Express Stations will be subject to various federal, state, and local health and sanitation laws. Federal, state or local laws may have a negative impact on your ability to construct and operate a Station. Environmental regulations may impact your operations, particularly in the area of sewer discharge. You may be subject to the Americans with Disabilities Act which prohibits practices that discriminate against physically and mentally challenged individuals regarding access to public accommodations and employment opportunities. The laws in your state or municipality may be more or less stringent, but failure to comply with the above governmental regulations could have a material adverse impact on you and your Watermill Express Station. You alone are responsible for investigating, understanding, and complying with all applicable laws, regulations, and requirements applicable to you and your Watermill Express Franchise despite any advice or information that we may give you. You should consult with a legal advisor about whether these and/or other requirements apply to your Watermill Express Station. Failing to comply with laws and regulations is a material breach of the Franchise Agreement.

## **ITEM 2 BUSINESS EXPERIENCE**

### CO-CEO and President: Lani L. Dolifka

Ms. Dolifka is our Co-CEO, President, and co-founder in Brighton, Colorado and has been so since our inception in December 2003. Ms. Dolifka is also the Chair of the Board of Managers of our parent company, WEL in Brighton, Colorado and has been since July 2003.

### CO-CEO: Donald P. Dolifka

Mr. Dolifka is our Co-CEO and co-founder in Brighton, Colorado and has been so since our inception in December 2003. Mr. Dolifka is also on the Board of Managers of our parent company, WEL in Brighton, Colorado and has been since July 2003.

### CFO: Sanford D. Goldberg, C.P.A.

Mr. Goldberg is our CFO in Brighton, Colorado and has been so since July 2008. Mr. Goldberg is also CFO of our parent company, WEL in Brighton, Colorado and has been so since July 2008.



Senior Vice President of Site Development: Darin J. Whittington

Mr. Whittington is our Senior Vice President of Site Development in Brighton, Colorado and has been so since December 2003. Mr. Whittington is also the Senior Vice President of our parent company, WEL in Brighton, Colorado and has been so since December 2003.

Training Development Manager: Lawrence J. Pollard

Mr. Pollard is our Training Development Manager in Brighton, Colorado and has been so since our inception in December 2003. Mr. Pollard is also the Technical Training and Services Manager for our parent company, WEL in Brighton, Colorado and has been so since October 2017. Prior to this, he served as the Training Development Manager of WEL since December 2003.

Vice President of National Operations: Stanley J. Rosenbrock

Mr. Rosenbrock is our Vice-President of National Operations in Brighton, Colorado and has been so since January 1, 2009. Mr. Rosenbrock is also our Vice-President of National Operations of our parent company, WEL in Brighton, Colorado and has been so since December 2003.

**ITEM 3  
LITIGATION**

No litigation is required to be disclosed in this Item.

**ITEM 4  
BANKRUPTCY**

No bankruptcy is required to be disclosed in this Item.

**ITEM 5  
INITIAL FEES**

Initial Franchise Fee

Franchisees are required to open a minimum of three (3) Watermill Express Stations. The “**Initial Franchise Fee**” varies depending on the number of Watermill Express Stations you wish to purchase:

Number of Watermill Express Stations	Initial Franchise Fee
3	\$75,000
5	\$100,000
10	\$150,000

The Area Development Agreement will list the number of Watermill Express Stations that you are required to open. You will be required to sign the then-current franchise agreement to open each additional Watermill Express Station.

We participate in the VetFran program. Under this program, honorably discharged veterans of the United States armed forces and their spouses are eligible to receive a discount of \$1,000 on the Initial Franchise Fee(s) for the purchase of multiple Watermill Express Stations.

The Initial Franchise Fee is uniform, payable in lump sum when you sign your Area Development Agreement and is nonrefundable under any circumstances, even if you fail to open any Watermill Express Stations.

### Watermill Express Stations

Franchisees are required to purchase the Watermill Express Stations from WEL. Each Watermill Express Station costs \$90,000 plus shipping costs. You are required to pay fifty percent (50%) of the cost of the Watermill Express Station when you sign the Franchise Agreement and the remaining balance upon delivery of the Watermill Express Station.

Unless you make other arrangements, you will be required to pay WEL for the shipping costs for the Stations. These costs are estimated to be between \$8,100 to \$18,600 for three (3) Stations. The shipping costs are due at time of delivery of the Stations to the shipping company, or upon invoice to WEL. The costs will depend on where the Station is being shipped. You will also be required to reimburse WEL for the sales tax paid for the Stations which is estimated to be \$22,200 for three (3) Stations. This payment is due upon delivery of the Stations.

You must purchase an initial inventory of supplies from WEL which you will need to perform routine maintenance and repairs on your Watermill Express Station such as electrical hardware, filters, and pumps before you open your first Watermill Express Station. You will be required to pay between \$11,000 and \$30,000, depending on the number of Stations that you purchase.

The fees for the Watermill Express Stations, sales tax, shipping and initial inventory are nonrefundable and uniformly applied, but may vary depending on the numbers of Stations, the location and other factors.

### Grand Opening Marketing

Franchisees are required to purchase the banners, table covers, bottles, brochures, direct mailers and signs for their grand opening marketing from WEL or designated sources, which three (3)-day grand opening must be conducted within the first 30 days after your Watermill Express Station opens, weather permitting. You will be required to pay between \$1,900 and \$2,000 to WEL or designated sources within 30 days of each Watermill Express Station opening for the grand opening marketing for each of the three (3) Stations totaling between \$5,700, and \$6,000 for all three (3) Stations.

The fees for the grand opening marketing materials are nonrefundable and uniformly applied.

**ITEM 6  
OTHER FEES**

Type of Fee <sup>(1)</sup>	Amount	Due Date	Remarks
Royalty <sup>(2)</sup>	0% of your monthly Gross Sales for the first twelve months following the Opening Date; 3% of your monthly Gross Sales beginning the thirteenth month following the Opening Date; 7% of monthly Gross Sales beginning the twenty-fifth month and continuing through the initial term.	Due by the 10 <sup>th</sup> day of every month	The “ <b>Royalty</b> ” is based on “ <b>Gross Sales</b> ” (see Note 2) during the previous month. The “ <b>Opening Date</b> ” is the first day the Station is open to the public.
Brand Fund Contribution	Up to 2% of your monthly Gross Sales	Same as Royalty	We do not currently charge this fee. The “ <b>Brand Fund</b> ” is discussed in Item 11.
Local Advertising Payment	The difference between the amount you spent on local advertising each month and your required local advertising expenditure (1% of Gross Sales)	Payable after receipt of invoice	If you fail to meet your required local advertising requirement on local advertising, you must pay us the difference between the amount you spent and the required advertising expenditure, which will be contributed to the Brand Fund.
Local and Regional Advertising Cooperatives	Established by cooperative members	Established by cooperative members	We currently do not have a cooperative, but reserve the right to require one to be established in the future. Item 11 contains more information about advertising cooperatives.
Prevailing Party Fee	Will vary under circumstances	As incurred	If we prevail in any legal action or proceeding under the Franchise Agreement against you, you will be required to pay us our costs and expenses related to the legal action or proceeding, including attorney fees, expert witness fees, costs of investigation and proof of facts, court costs and other litigation expenses.
Unauthorized Advertising Fee	\$500 per occurrence	Upon demand	This fee is payable to us, or if established, the Brand Fund if you use unauthorized advertising in violation of the terms of the Franchise Agreement.

Type of Fee <sup>(1)</sup>	Amount	Due Date	Remarks
Additional Training or Assistance Fees	Then-current fee (currently \$150 per day plus costs)	As incurred	We may charge you for training additional persons, newly-hired personnel, refresher training courses, and additional or special assistance or training you need or request. We will provide additional assistance in our discretion upon your reasonable request. You are responsible for the travel expenses of our representative.
Station Support Fee	\$20 per month per Station	Same as Royalty	This fee covers technical support for the operation and maintenance of the Watermill Express Stations. We reserve the right to increase this fee to up to \$50 per month upon 30 days' written notice.
Payments to WEL for Required Upgrades	Varies	As incurred	You must pay WEL for performing any act or making any payments that you are obligated to perform or pay for the upgrade of the Watermill Express Station as may be required under the Franchise Agreement.
Convention Fee	We do not currently charge this fee	Upon demand	We may charge a convention fee if we hold an annual convention to help defray the cost of your attendance at any annual convention that we choose to hold.
Interest	Lesser of 1 ½% per month or the highest interest rate allowed by law on payments past due	On demand	Payable if any payment due to us or our affiliates is not made by the due date. Interest accrues from the original due date until payment is received in full
Non-Sufficient Funds Fee	\$100 per occurrence	As incurred	Payable if any check or electronic payment is not successful due to insufficient funds, stop payment, or any similar event.
Audit Expenses	Cost of audit and inspection, any understated amounts, and any related accounting and legal expenses	On demand	You will be required to pay this if an audit reveals that you understated your monthly Gross Sales by more than two percent (2%) or you fail to submit required reports.

Type of Fee <sup>(1)</sup>	Amount	Due Date	Remarks
Indemnification	Will vary under circumstances	As incurred	You must indemnify and reimburse us for any expenses or losses that we or our representatives incur related in any way to your Watermill Express Station or Franchise.
Successor Franchise Fee	25% of the Initial Franchise Fee paid for the Watermill Express Station	At the time you sign the new franchise agreement, which must be signed at least 30 days before expiration of the term	Payable if you qualify to renew your Franchise Agreement and choose to enter into a successor franchise agreement.
Transfer Fee	25% of the Initial Franchise Fee Paid	\$1,000 non-refundable deposit at time of transfer application submittal and the remaining balance of fee at time of the approved transfer	Payable in connection with the transfer of your Watermill Express Station, a transfer of ownership of your legal entity or the Franchise Agreement. Unless we approve otherwise, in our sole discretion, any transfer must include at least fifty percent (50%) of all Watermill Express Stations that you directly or indirectly own. If you own three (3) Watermill Express Stations or less, the transfer must include all Stations.
Insurance Premiums	Varies	As incurred	If you do not maintain the required insurance coverage, we may obtain insurance on your behalf and you must sign our necessary instruments and pay us for our costs. We may require you to obtain different or additional kinds of insurance.

Notes:

1. All fees paid to us or our affiliates are uniform and not refundable under any circumstances once paid. Fees paid to vendors or other suppliers may be refundable, depending on the vendors and suppliers. We currently require you to pay fees and other amounts due to us or our affiliates via electronic funds transfer (“**EFT**”) or other similar means. You are required to complete the EFT authorization (in the form attached to this Franchise Disclosure Document as **Exhibit H**). We can require an alternative payment method or payment frequency for any fees or amounts owed to us or our affiliates under the Franchise Agreement. All fees are current as of the Issuance Date of this Franchise Disclosure Document. Certain fees that we have indicated may increase over the term of the Franchise Agreement.
2. “**Gross Sales**” shall mean and include the aggregate amount of all sales of products, services or merchandise (including the bulk sale of tokens for the purchase of water or ice) of every kind or

nature sold from, at or in connection with or arising out of the operation or conduct of business at the Station and through the Franchised Business whether for cash or credit, and any revenues from sales of merchandise such as bottles, containers, dispensers, and all other merchandise and similar promotional items, less returns for which refunds are made, provided that the refund shall not exceed the sales price, but excluding all: (i) federal, state or municipal sales or service taxes collected from customers and paid to the appropriate taxing authority; (ii) discounts, (iii) promotional tokens given to customers to encourage free sampling of water from Franchisee's Station ; and (iv) other exclusions as may be authorized in writing by WEF.

## ITEM 7 ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT FOR 3 WATERMILL EXPRESS STATIONS

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Payment is to be Paid
	Low	High			
Initial Franchise Fee <sup>(1)</sup>	\$75,000	\$75,000	Lump sum	When you sign the Area Development Agreement	Us
Construction Costs <sup>(2)</sup>	\$67,200	\$129,900	As incurred	Before opening	Other Suppliers
Watermill Express Stations <sup>(3)</sup>	\$270,000	\$270,000	Lump sum	One-half at the time of order and remainder upon delivery	WEL
Watermill Express Station Sales Tax	\$22,200	\$22,200	Lump sum	Upon delivery	WEL
Watermill Express Station Shipping <sup>(4)</sup>	\$8,100	\$18,600	As incurred	At time of delivery to vendor, or upon invoice to WEL	WEL or other suppliers
Watermill Express Station Unloading Crane	\$600	\$6,600	Lump sum	Upon rental	Rental company
Opening Supplies Inventory <sup>(5)</sup>	\$11,000	\$30,000	As incurred	Before opening the first Watermill Express Station	WEL or other suppliers
Office Equipment and Tools <sup>(6)</sup>	\$1,500	\$6,000	As incurred	Before opening	Other suppliers
Grand Opening Marketing Costs <sup>(7)</sup>	\$5,700	\$6,000	As incurred	Within 30 days of each Watermill Express Station opening	WEL or other suppliers

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Payment is to be Paid
	Low	High			
Deposits, Licenses, and Bonds <sup>(8)</sup>	\$900	\$11,100	As incurred	Before opening	Other suppliers
Training <sup>(9)</sup>	\$600	\$3,000	As incurred	Before opening	Other suppliers
Additional Funds – 3 Months <sup>(10)</sup>	\$9,000	\$18,000	As incurred	As incurred	Other suppliers
<b>TOTAL ESTIMATED INITIAL INVESTMENT<sup>(11)</sup></b>	<b>\$471,800</b>	<b>\$596,400</b>			

Notes:

These estimated initial expenses are our best estimate of the costs you may incur in establishing and operating your Watermill Express Franchise for the operation of three (3) Watermill Express Stations. We have also included a chart below which details the initial investment required for additional Stations. Our estimates are based on our experience, the experience of our affiliates, and our current requirements for Watermill Express Franchises. The factors underlying our estimates may vary depending on several variables, and the actual investment you make in developing and opening your Franchise may be greater or less than the estimates given depending upon the location of your Franchise and current relevant market conditions. Your costs will also depend on factors such as how well you follow our methods and procedures; your management skills; your business experience and capabilities; local economic conditions; the local market for our products and services; the prevailing wage rates; competition; and sales levels reached during your initial phase of business operations. All expenditures paid to us or our affiliates are uniform and non-refundable under any circumstances once paid. All expenses payable to third parties are non-refundable, except as you may arrange for utility deposits and other payments.

1. Initial Franchise Fee. The estimate is for a Franchise for up to three (3) Watermill Express Stations.
2. Construction Costs. Location is an important feature of each Watermill Express Station. The costs incurred for construction may vary greatly due to variances in markets, locations, types of sites, lease negotiations, zoning, and other considerations. These costs will also vary due to the proximity of the site to utility connections, as well as the composition of the soil at the location. The cost of construction services may vary significantly based on the contractor, geographic area, and the use of sub-contractors. Franchisees must investigate their geographical area of interest to determine this cost component. The estimates given in the above table for site acquisition costs assumes that the site on which the Watermill Express Station will be placed will be leased by you. You may elect to purchase or use property you already own for the placement of your Watermill Express Station; however, under these circumstances we are unable to estimate the resulting costs.
3. Watermill Express Stations. The estimate is for three (3) Watermill Express Stations.
4. Watermill Express Station Shipping. You are required to pay WEL or the vendor for the shipping and freight charges for the Watermill Express Station at the time of delivery, or reimburse WEL for the shipping and freight charges upon invoice.

5. Opening Supplies Inventory. You must purchase an initial inventory of supplies which you will need to perform routine maintenance and repairs on your Watermill Express Station, such as electrical hardware, filters, and pumps before you open your first Watermill Express Station. The high estimate will allow you to service between three (3) to ten (10) Stations.
6. Office Equipment and Tools. This item includes certain diagnostic tools you will need to perform routine maintenance on your Watermill Express Station, as well as the cost of equipment for your office. The higher estimate also includes the cost of coin sorting and money counting equipment.
7. Grand Opening Marketing Costs. Within the first 30 days after the Watermill Express Station opens, you must conduct a grand opening marketing campaign to promote the Watermill Express Station opening.
8. Deposits, Licenses, and Bonds. Security deposits typically range from zero (0) to two (2) months' rent. Utility deposits range from a nominal amount to approximately \$1,500, and general business licenses range from approximately \$300 to \$600, depending on the location. This item also includes costs related to obtaining state certifications and licenses.
9. Training. We provide training at our training center in Brighton, Colorado or at another location designated by us. You must pay for airfare, meals, transportation costs, lodging, and incidental expenses for all initial training program attendees. Initial training is provided at no charge for up to two (2) people, one (1) of which must be a principal owner; if additional initial training is required, or more people must be trained, an additional fee will be assessed.
10. Additional Funds. These amounts represent our estimate of the amount needed to cover your expenses for the initial 3-month start-up phase of your Watermill Express Station. They include coin inventory, rent, insurance, legal expenses, business startup, accounting and bookkeeping setup, and other overhead costs and expenses. You may incur additional costs if you encounter inclement weather during the shipping or build out of the Station. These figures do not include standard pre-opening expenses, royalties, or advertising fees payable under the Franchise Agreement or debt service and assume that none of your expenses are offset by any sales generated during the start-up phase. For purposes of this disclosure, we estimated the start-up phase to be three (3) months from the date the Watermill Express Franchise opens for business. These figures are estimates, and we cannot guarantee that you will not have additional expenses starting the Watermill Express Station. You must bear any deviation or escalation in costs from the estimates that we have given. Your costs will depend on factors such as how well you follow our methods and procedures; your management skills, experience, and business acumen; local economic conditions; the local market for your products and services; the prevailing wage rate; competition; inclement weather; and the sales level reached during the start-up period.
11. Figures May Vary. This is an estimate of your initial startup expenses for the opening of three (3) Watermill Express Stations. You will incur additional costs beyond what is listed in the chart above to open each additional Station. We have provided a chart below which provides additional estimates to open the additional Stations. You should review these figures carefully with a business advisor before making any decision to purchase the Franchise.



The chart below describes the initial investment needed for each additional Watermill Express Station beyond the first three (3) Stations:

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Payment is to be Paid
	Low	High			
Initial Franchise Fee	\$15,000	\$20,000	Lump sum	When you sign the Area Development Agreement	Us
Construction Costs	\$22,400	\$43,300	As incurred	Before opening	Other Suppliers
Watermill Express Stations	\$90,000	\$90,000	Lump sum	One-half at the time of order and remainder upon delivery	WEL
Watermill Express Station Sales Tax	\$7,400	\$7,400	Lump sum	Upon delivery	WEL
Watermill Express Station Shipping	\$2,700	\$6,200	As incurred	At time of delivery to vendor, or upon invoice to WEL	WEL or other suppliers
Watermill Express Station Unloading Crane	\$200	\$2,200	Lump sum	Upon rental	Rental company
Opening Supplies Inventory	\$0	\$30,000	As incurred	Before opening	WEL or other suppliers
Grand Opening Marketing Costs	\$1,400	\$1,540	As incurred	Within 30 days of each Watermill Express Station opening	WEL or other suppliers
Deposits, Licenses, and Bonds	\$300	\$3,700	As incurred	Before opening	Other suppliers
Training	\$0	\$1,000	As incurred	Before opening	Other suppliers
Additional Funds – 3 Months	\$3,000	\$6,000	As incurred	As incurred	Other suppliers
TOTAL ESTIMATED INITIAL INVESTMENT FOR EACH ADDITIONAL STATION	\$142,400	\$211,340			

## ITEM 8

### RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must operate your Watermill Express Station according to our Dolifka System and specifications. This includes purchasing or leasing all goods, services, supplies, fixtures, equipment, inventory, computer hardware and software, and real estate related to establishing and operating the Watermill Express Franchise under our specifications, which may include purchasing these items from: (i) our designees, (ii) approved suppliers, and/or (iii) us or our affiliates. You must not deviate from these methods, standards, and specifications without our prior written consent, or otherwise operate in any manner which reflects adversely on our Marks or the Dolifka System.

Our confidential operations manual (“**Franchise Operations Manual**”) states our specifications, standards, and guidelines for all products and services we require you to obtain in establishing and operating your Watermill Express Franchise and approved vendors for these products and services. We will notify you of new or modified specifications, standards, and guidelines through periodic amendments or supplements to the Franchise Operations Manual or through other written communication (including electronic communication such as e-mail or through a system-wide intranet).

You must purchase, install, maintain in sufficient supply, and use, only fixtures, furnishings, equipment, signs, and supplies that conform to the standards and specifications described in the Franchise Operations Manual or otherwise in writing.

You must, at your expense, purchase or lease, construct, convert, design, decorate, equip, and otherwise prepare the Watermill Express Station for operation in accordance with our plans and specifications, and with the assistance of shippers, contractors, and suppliers who meet our guidelines. Currently, the Watermill Express Station is only available through WEL.

We must approve any lease or, if applicable, any purchase agreement for the location of Watermill Express Stations before you execute a lease or purchase agreement and the lease must contain our required terms. You must (or, in our discretion, pay us to) renovate, refurbish, remodel, redecorate, and re-equip your Watermill Express Station at your expense to conform the Watermill Express Station to be consistent with the image and standards of other Watermill Express Stations upon our request, which may be made no more than once every five (5) years (unless we deem such changes necessary to conform with applicable laws, codes, or other regulations, in which event we may make this request more frequently).

Each Watermill Express Station contains our proprietary equipment and software. You cannot copy, reproduce, modify, translate, reverse engineer, decompile, or disassemble any portion of the equipment or software system, or of any other software or system that we otherwise provide to you, without our prior written consent, which may be withheld in our sole discretion.

You must use the computer hardware and software that we periodically designate to operate your Watermill Express Franchise. You must obtain the computer hardware, software licenses, maintenance and support services, and other related services that meet our specifications from the suppliers we specify. You must obtain the insurance coverage required under the Franchise Agreement. The insurance company must be authorized to do business in the state where your Watermill Express Station is located and must be approved by us. We may periodically increase the amounts of coverage required under these insurance policies and/or require different or additional insurance coverage at any time. All insurance policies must name us and any affiliates we designate as additional named insured parties.

We set certain standards and specifications for the equipment, parts, signs, supplies, and other products used in the operation of or sold through a Watermill Express Station which are necessary and are intended to ensure and maintain the integrity and value of the Dolifka System and its standards of reliability, quality, and service. All brands, models, and/or types of equipment, parts, signs, supplies, and products used or offered for sale by you must meet our minimum standards and specifications for design, function, performance, serviceability, and warranties. You must purchase Watermill Express Stations and replacement parts for the Watermill Express Station, only from WEL or a supplier we have approved in advance. You must also use only those products, materials, containers, packaging materials, labels, supplies, forms, cleaning and sanitation materials, and other supplies that conform to the specifications and quality standards established by us from time to time and/or purchased from suppliers approved by us from time to time. The standards and specifications are provided in the Franchise Operations Manual. We reserve the right to change standards and specifications for services and products offered at or through a Watermill Express Station or equipment, supplies, and products used in connection with the operation of a Watermill Express Station, upon 30 days' prior written notice to you and by amendment to the Franchise Operations Manual.

We will provide you with a list of our designated and approved suppliers in our Franchise Operations Manual. If you want to use or sell a product or service that we have not yet evaluated, or if you want to purchase or lease a product or service from a supplier or provider that we have not yet approved (for services and products that require supplier approval), you must notify us and submit to us the information, specifications, and samples we request. We will use commercially reasonable efforts to notify you within 30 days after receiving all requested information and materials whether you are authorized to purchase or lease the product or service from that supplier or provider. We reserve the right to charge a fee to evaluate the proposed product, service, or supplier. We apply the following general criteria in approving a proposed supplier: (1) ability to purchase the product in bulk; (2) quality of services; (3) production and delivery capability; (4) proximity to Watermill Express Franchises to ensure timely deliveries of the products or services; (5) the dependability of the supplier; and (6) other factors. The supplier may also be required to sign a supplier agreement with us. We may periodically re-inspect approved suppliers' facilities and products and we reserve the right to revoke our approval of any supplier, product, or service that does not continue to meet our specifications. We will send written notice of any revocation of an approved supplier, product, or service. We do not provide material benefits to you based solely on your use of designated or approved sources.

We did not derive any revenue from the sale of products or services to franchisees. Some of our officers own equity in WEL, an approved supplier. WEL also sells replacement parts for Watermill Express Stations and promotional materials that you may use in your Watermill Express Station. WEL will derive revenues from the sale of Watermill Express Stations, replacement parts and promotional materials. During the fiscal year ending on December 31, 2018, WEL had revenues of \$641,569 from the sale of Watermill Express Stations, replacement parts, and promotional materials to franchisees. This information was derived from WEL's audited financial statements for the fiscal year ending on December 31, 2018. Except for the revenues of WEL as stated, neither we, nor any affiliated company of ours, derived revenues from the sale or leasing of any products or services to our franchisees.

We estimate that approximately 80% of purchases required to open your Watermill Express Station and 10% of purchases required to operate your Watermill Express Station will be from us or from other approved suppliers and under our specifications. We and our affiliates may receive rebates from some suppliers based on your purchase of services and products, and we have no obligation to pass them on to our franchisees or use them in any particular manner.

We may negotiate purchase arrangements with suppliers and distributors for the benefit of our franchisees and we may receive rebates or volume discounts from our purchase of equipment and supplies that we resell to you. We currently do not have any purchasing or distribution cooperatives.

## ITEM 9 FRANCHISEE'S OBLIGATIONS

**This table lists your principal obligations under the Franchise Agreement and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.**

Obligation		Section(s) in Agreement	Item in Disclosure Document
a.	Site selection and acquisition/lease	Sections 5.1, 5.2, and 6.1 of Franchise Agreement; Section 5 of Area Development Agreement	Item 8 and Item 11
b.	Pre-opening purchases/leases	Sections 5.2, 5.3, and 5.5 of Franchise Agreement	Item 5, Item 6, Item 7, Item 8 and Item 10
c.	Site development and other pre-opening requirements	Sections 5.3, 5.4, 5.5 and 5.6 of Franchise Agreement	Item 7, Item 8 and Item 11
d.	Initial and ongoing training	Sections 6.1(d) and 6.1(e) of Franchise Agreement	Item 11
e.	Opening	Sections 5.4 and 7.1 of Franchise Agreement	Item 11
f.	Fees	Sections 4.3, 6.1, 6.2, 10.1, 10.2, 10.5, 10.6, 11.1 11.3, 11.4 and 11.5 of Franchise Agreement; Section 3 and Attachment A of Area Development Agreement	Item 5, Item 6, and Item 7
g.	Compliance with standards and policies/Franchise Operations Manual	Sections 7 and 12 of Franchise Agreement	Item 11 and Item 14
h.	Trademarks and proprietary information	Section 13 of Franchise Agreement	Item 13 and Item 14
i.	Restrictions on products/services offered	Sections 12.3, 12.4, 12.5 and 12.6 of Franchise Agreement	Item 12 and Item 16
j.	Warranty and customer service requirements	Section 7.4 and 12.6 of Franchise Agreement	None
k.	Territorial development and sales quotas	Section 5.3 of Franchise Agreement; Sections 1.1, 4.1, 4.2 and Attachment B of Area Development Agreement	Item 12
l.	On-going product/service purchases	Sections 7.1 and 7.5 of Franchise Agreement	Item 8
m.	Maintenance, appearance and remodeling requirements	Sections 7.3 and 7.8 of Franchise Agreement	Item 8
n.	Insurance	Section 8 of Franchise Agreement	Item 7

Obligation		Section(s) in Agreement	Item in Disclosure Document
o.	Advertising	Section 11 of Franchise Agreement	Item 5, Item 6, Item 7, and Item 11
p.	Indemnification	Section 8.4 of Franchise Agreement	Item 6
q.	Owner's participation/management/staffing	Sections 7.9, 7.10 and 7.11 of Franchise Agreement	Item 11 and Item 15
r.	Records and reports	Section 9 of Franchise Agreement	Item 8
s.	Inspections and audits	Sections 6.1, 7.9, 9.5 and 12.2 of Franchise Agreement	Item 6
t.	Transfer	Section 14 of Franchise Agreement; Sections 8.1 and 8.2 of Area Development Agreement	Item 17
u.	Renewal	Sections 4.2, 4.3 and 4.4 of Franchise Agreement	Item 17
v.	Post-termination obligations	Section 15.4 of Franchise Agreement	Item 17
w.	Non-competition covenants	Section 16 of Franchise Agreement	Item 17
x.	Dispute resolution	Section 16 of Franchise Agreement; Section 15 of Area Development Agreement	Item 17

## ITEM 10 FINANCING

We do not offer direct or indirect financing to you. We do not guarantee your note, lease, or obligation.

## ITEM 11 FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

**Except as listed below, WEF is not required to provide you with any assistance.**

### Pre-opening Obligations

Before you open your first Watermill Express Station, we (or our designee) will provide the following assistance and services to you:

1. Provide an initial training program for up to two (2) people, including your designated General Manager and Operations Manager (both defined below), at a location chosen by us. You or your General Manager must attend and successfully complete the initial training program before opening your first Watermill Express Station. Training is provided without a fee for two (2) people (See Section 6.1(d) of the Franchise Agreement).

2. Loan you one (1) copy of the Franchise Operations Manual. The Franchise Operations Manual contains approximately 156 pages. The table of contents for the Franchise Operations Manual is

attached to this Franchise Disclosure Document as **Exhibit G** (See Section 6.1(f) of the Franchise Agreement).

3. Provide you with information and advice in identifying a suitable location for your Watermill Express Stations, if you request assistance (See Section 6.1(a) of the Franchise Agreement).

4. Once you have an approved site for your Watermill Express Station, we will designate a territory for each Watermill Express Station (See Sections 3.1 and 3.2 of the Franchise Agreement and Attachment I).

5. We will provide one (1) standard prototype set of blueprints for your Watermill Express Station build-out. You will modify the standard Watermill Express Station plans at your own expense to suit the shape and dimensions of the Location and to comply with all applicable building, zoning, health, or other laws (we must also approve revisions and receive copies of revisions for our records), codes, ordinances, and all private restrictions. You are responsible for the costs of construction (See Sections 5.3(c) and 6.1(b) of the Franchise Agreement).

6. Because you do not have to locate a site from which to operate your Watermill Express Business, we do not provide you with assistance in doing so. You may open an office, but it is not required. You are not required to obtain our approval for an office if you open one (See Franchise Agreement – Section 5.5).

#### *Site Selection Assistance*

Although you select and acquire the premises for the Watermill Express Station, we will assist you by providing criteria for a satisfactory site, including zoning considerations, appropriate size and dimensions, visibility factors, traffic flow and patterns, access and exits, water supply hook-ups, area population, and market conditions. You must receive written approval from us for the premises before entering into a lease or purchase agreement. You must also obtain our prior written approval to relocate a Watermill Express Station to another location. In order to obtain our written approval for any location for a Watermill Express Station, you must provide us with a description of each location in the form we approve. We may, but are not obligated to, send our representative to your proposed location for an on-site assessment before approving the location.

#### *Schedule for Opening*

The typical length of time between signing the Franchise Agreement and the opening of the Watermill Express Station can vary from 90 to 180 days. Some of the factors which affect the opening are your ability to acquire a location through lease or purchase negotiations, construction delays, shipping delays, weather issues, your ability to secure any necessary financing, your ability to comply with local zoning and other ordinances, your ability to obtain any necessary permits and certifications, the timing of the delivery of Equipment, the time to construct your Watermill Express Station, and completion of training.

#### Continuing Obligations

During the operation of your Watermill Express Station, we (or our designee) will provide the following assistance and services to you:

1. Inform you of mandatory specifications, standards, and procedures for the operation of your Franchise (See Sections 5 7.01, 7.05, 9.01, 9.02 and 15.03 of the Franchise Agreement).

2. Upon reasonable request, provide advice regarding your Watermill Express Station's operation based on reports or inspections. Advice will be given during our regular business hours and via written materials, electronic media, telephone, or other methods in our discretion (See Section 7.12 of the Franchise Agreement).

3. Provide you with advice and guidance on advertising and marketing (See Sections 9.01 and 10.02 of the Franchise Agreement).

4. Provide additional training to you for newly-hired personnel on the Watermill Express brand and Dolifka System guidelines, refresher training courses, and additional training or assistance that, in our discretion, you need or request. You may be required to pay additional fees for this training or assistance (See Section 6 of the Franchise Agreement).

5. Allow you to continue to use confidential materials, including the Franchise Operations Manual and the Marks (See Sections 7.04, 9.01, 9.02, 10.02 11.01 and 11.02 of the Franchise Agreement).

6. When and if available, refer to you national accounts with locations in your Territory (and, if applicable, your Development Area) and offer you a first right of refusal to operate Watermill Express Stations at the national account's locations (See Section 6.1(h) of the Franchise Agreement).

7. Make available certain of the operating parameters and sales data of your Watermill Express Station using our proprietary software, at a frequency and in a manner as we deem appropriate. We may charge you a fee for this monitoring (See Section 6.1(j) of the Franchise Agreement).

8. Provide Watermill Express customers access to our website and the ability to communicate with us (See Section 6.1(l) of the Franchise Agreement).

#### Optional Assistance

During the term of the Franchise Agreement, we (or our designee) may, but are not required to, provide the following assistance and services to you:

1. Modify, update, or change the Dolifka System, including the adoption and use of new or modified trade names, trademarks, service marks, or copyrighted materials, new products, new equipment, or new techniques.

2. Make periodic visits to your Watermill Express Station for the purpose of assisting in certain aspects of the operation and management of the Franchise, prepare written reports concerning these visits outlining any suggested changes or improvements in the operation of the Franchise, and detailing any problems in the operations which become evident as a result of any visit. If provided at your request, you must reimburse our expenses and pay our then-current training charges.

3. Maintain and administer a Brand Fund. We may dissolve the Brand Fund upon written notice (See Section 7.15 of the Franchise Agreement).

4. Hold periodic national or regional conferences to discuss business and operational issues affecting Watermill Express franchisees.

5. Provide a call center with a toll-free number for your customers to contact us during business hours for questions or concerns about Watermill Express Stations (See Section 6.1(k) of the Franchise Agreement).

## Advertising

You must obtain our prior written approval of all advertising or other marketing or promotional programs for your Watermill Express Station, including, without limitation, on-site promotional items, Internet advertising, social media, radio spots, flyers, or other advertising or promotional programs. The proposed written advertising or description of the marketing or promotional program must be submitted to us at least 14 days before publication, broadcast, or use. You must participate in promotions and public relations campaigns (e.g., contributions to charitable events) we institute from time to time for all Watermill Express Stations, or for all Watermill Express Stations within a particular area. You must also participate in customer service, community service programs, complimentary product promotions, customer loyalty, gift card, and other promotional programs. We reserve the right to require that you participate in electronic advertising by creating, customizing, or providing access to a linked webpage or otherwise. All Watermill Express Stations, including any owned by us or our affiliates, must participate in these programs or other promotions that we may adopt in the future.

### *Grand Opening Advertising*

You must execute a grand opening program ("**Grand Opening Program**"). We estimate the Grand Opening Program will cost between \$1,900 and \$2,000 for each Station and will occur within 30 days after the opening of the Station, weather permitting. The Grand Opening Program must comply with our standards and specifications as set forth in the Franchise Operations Manual, and you must use advertising, marketing, and public relations programs, firms, media, and materials that we approve in writing (See Section 11.2 of the Franchise Agreement).

### *Brand Fund*

We reserve the right to create the Brand Fund ("**Brand Fund**"). If established, you must pay up to two percent (2%) of your Gross Sales for the Brand Fund ("**Brand Fund Contribution**"). Your contribution to the Brand Fund will be in addition to all other advertising requirements set out in this Item 11. Each franchisee will be required to contribute to the Brand Fund, but certain franchisees may contribute on a different basis depending on when they signed their Franchise Agreement. Franchisor-owned outlets may, but are not required, to contribute to the Brand Fund on the same basis as franchisees.

During our last fiscal year, which ended December 31, 2018, we did not collect any Brand Fund Contributions and did not spend any marketing dollars from the Brand Fund.

The Brand Fund will be administered by us, or our affiliate or designees, at our discretion, and we may use a professional advertising agency or media buyer to assist us. The Brand Fund will be in a separate bank account, commercial account, or savings account.

We have complete discretion on how the Brand Fund will be utilized. We may use the Brand Fund for local, regional, or national marketing, advertising, sales promotion and promotional materials, public and consumer relations, website development and search engine optimization, the development of technology for the Dolifka System, and any other purpose to promote the Watermill Express brand. We may reimburse ourselves, our authorized representatives, or our affiliates from the Brand Fund for administrative costs, independent audits, reasonable accounting, bookkeeping, reporting and legal expenses, taxes, and all other direct or indirect expenses associated with the programs funded by the Brand Fund. We do not guarantee that advertising expenditures from the Brand Fund will benefit you or any other franchisee directly, on a pro rata basis, or at all. We are not obligated to spend any amount on advertising in the geographical area where you are or will be located. We will not use the Brand Fund contributions for advertising that is principally a solicitation for the sale of Franchises, but we reserve the right to include



a notation in any advertisement indicating “**Franchises Available**” or similar phrasing or include information regarding acquiring a Franchise on, or as a part of, materials and items produced by or for the Brand Fund.

We assume no fiduciary duty to you or other direct or indirect liability or obligation to collect amounts due to the Brand Fund or to maintain, direct, or administer the Brand Fund. Any unused funds in any calendar year will be applied to the following year’s funds, and we reserve the right to contribute or loan additional funds to the Brand Fund on any terms we deem reasonable.

The Brand Fund is not audited. We will provide an annual accounting for the Brand Fund that shows how the Brand Fund proceeds have been spent for the previous year upon written request. We did not collect any Brand Fund Contributions during our last fiscal year.

### *Local Advertising*

We currently require you to spend a minimum of one percent (1%) of your Gross Sales on local advertising each calendar quarter (“**Local Advertising Requirement**”). The Local Advertising Requirement is in addition to the Brand Fund Contribution. If you fail to spend the Local Advertising Requirement, you will be required to pay the difference to us, or if established, the Brand Fund. You agree, at your sole cost and expense, to issue and offer such rebates, giveaways, and other promotions in accordance with advertising programs established by us, and further agree to honor the rebates, giveaways, and other promotions issued by other Watermill Express franchisees under any such program, so long as such compliance does not contravene any applicable law, rule, or regulation. You will not create or issue any gift cards/certificates and will only sell gift cards/certificates that have been issued or sponsored by us and which are accepted at all Watermill Express Stations, and you will not issue coupons or discounts of any type except as approved by us.

We may, upon 30 days’ prior notice to you, modify the amount of the Local Advertising Requirement, but in no event will it exceed five percent (5%) of the total amount of your annual Gross Sales. You must submit a report of your local advertising expenditures to us within 30 days after the end of each calendar quarter, showing how you are meeting the Local Advertising Requirement and how you spent the funds in the quarter for local advertising. You must obtain our prior written consent before disseminating any local advertising or overseeing or participating in any local advertising campaign. You must allow at least 14 days for our review and approval of your local advertising materials (Section 11.3 of Franchise Agreement).

You may be required to participate in any local or regional advertising cooperative for Watermill Express Franchises that are established. The area of each local and regional advertising cooperative will be defined by us, based on our assessment of the area. Franchisees in each cooperative will contribute an amount to the cooperative for each Watermill Express Franchise that the franchisee owns that exists within the cooperative’s area. Each Watermill Express Station that we or our affiliate owns that exists within the cooperative’s area will contribute to the cooperative on the same basis as franchisees. Members of the cooperative will be responsible for administering the cooperative, including determining the amount of contributions from each member. We may require that each cooperative operate with governing documents and prepare annual unaudited financial statements. We reserve the right to form, change, dissolve, or merge any advertising cooperative formed in the future. If we elect to form such cooperatives, or if such cooperatives already exist near your territory, you will be required to participate in compliance with the provisions of the Franchise Operations Manual, which we may periodically modify at our discretion.

You must order sales and marketing material from us or our designated suppliers. It is a material breach of the Franchise Agreement to use other marketing material without obtaining our prior written

approval. If you desire to use your own advertising materials you must obtain our prior approval, which may be granted or denied in our sole discretion. We will review your request and we will respond in writing within 30 days from the date we receive all requested information. Our failure to notify you in the specified time frame will be deemed a disapproval of your request. Use of logos, Marks, and other name identification materials must follow our approved standards. You may not use our logos, Marks, and other name identification materials on items to be sold or services to be provided without our prior written approval. If you use unauthorized advertising materials, you must pay a fee of \$500 per occurrence to us, or if established, the Brand Fund.

We retain the sole right to market on the Internet, including all use of websites, domain names, URL's, linking, advertising, and co-branding arrangements. You may not independently market on the Internet, or use any domain name, address, locator, link, metatag, or search technique with words or symbols similar to the Marks. We intend any franchisee website be accessed only through our main website. We may require you to provide us content for our Internet marketing. We retain the right to approve or disprove any linking or other use of our website in our sole discretion.

#### *Advisory Council*

We currently do not have, but may form, an advisory council ("**Council**") to advise us on advertising policies. Members of the Council would consist of both franchisees and corporate representatives. Members of the Council would be selected by way of a voting method specified in the Council's bylaws. The Council would serve in an advisory capacity only. We will have the power to form, change, or dissolve the Council, in our sole discretion.

#### Computer System

Your office must have an automated voicemail system or answering service with 24/7 answering capability, a dedicated telephone line, a high-speed Internet connection, and other office equipment with such capabilities as required by the Franchise Operations Manual. You must also purchase (1): a computer system of any make or model and maintain an electronic mail account as required by us; and (b) accounting software that meets our standards and specifications and enables you to fulfill the financial reporting requirements in the Franchise Agreement ("**Computer System**"). Each Watermill Express Station is equipped with our proprietary software which is key to the operation of the Watermill Express Station. We estimate the cost of purchasing the Computer System will be between \$750 and \$1,500. You must record all Gross Sales on the Computer System. You must store all data and information in the Computer System that we designate, and report data and information in the manner we specify. The Computer System will generate reports on the Gross Sales of your Watermill Express Franchise. You must also maintain a high-speed Internet connection at the Watermill Express Station. You must accept credit cards, debit cards, and loyalty cards that become available and that we determine are necessary. We are not required to provide you with any ongoing maintenance, repairs, upgrades, updates, or support for the Computer System (See Section 5 of the Franchise Agreement). You must arrange for installation, maintenance, and support of the Computer System at your cost. There are no limitations in the Franchise Agreement regarding the costs of such required support, maintenance, repairs, or upgrades relating to the Computer System. We cannot estimate the cost of maintaining, updating, or upgrading the Computer System or its components because it will depend on your repair history, local costs of computer maintenance services in your area, and technological advances which we cannot predict at this time. We may revise our specifications for the Computer System periodically. You must upgrade or replace your Computer System at such time as specifications are revised. There is no limitation on the frequency and cost of this obligation.

If we create any upgrades, enhancements, or modifications to the proprietary software system, you must permit us or our representative to gain access to your Watermill Express Station to install the upgrades, enhancements, or modifications.

We (or our designee) have the right to independently access the electronic information and data relating to your Watermill Express Franchise and to collect and use your electronic information and data in any manner, including to promote the System and the sale of Franchises. This may include posting financial information of each franchisee on an intranet website. There is no contractual limitation on our right to receive or use information through our proprietary data management and intranet system. We may access the electronic information and data from your Computer System remotely, in your Watermill Express Station or from other locations.

## Training

### *Initial Training*

We provide initial training at no cost for the opening of your first Watermill Express Station only. We do not provide initial training for the opening of additional Stations. You and any manager or representative that we require must complete the initial training to our satisfaction before you open your Watermill Express Station. You and your general manager must complete the training program to our reasonable satisfaction, as determined by the specific program instructors, before you are able to open the Watermill Express Station. Initial training classes are held whenever necessary to train new franchisees. You will not receive any compensation or reimbursement for services or expenses for participation in the initial training program. You are responsible for all your expenses to attend any training program, including lodging, transportation, food, and similar expenses. We plan to provide the training listed in the table below. The hours presented for each subject are estimates and may change.

### **TRAINING PROGRAM**

<b>Subject</b>	<b>Hours of Classroom Training</b>	<b>Hours of On-The-Job Training</b>	<b>Location</b>
Company History, Philosophy, Vision and Values	2	0	Brighton, Colorado, or another location designated by us
Administration and Reporting	2	0	Brighton, Colorado, or another location designated by us
Basic Station Overview	3	0	Brighton, Colorado, or another location designated by us
Basic Site Development/Construction Overview	2	0	Brighton, Colorado, or another location designated by us
Basic Operational Overview	2	0	Brighton, Colorado, or another location designated by us
Basic Marketing Overview	2	0	Brighton, Colorado, or another location designated by us
Webinar-Technical Training	10	0	Virtual
Advanced Site Development/Construction – Field	0	8	Your Watermill Express Station or another Watermill Express Station designated by us

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Advanced Station Opening and Operations – Field	0	8	Your Watermill Express Station or another Watermill Express Station designated by us
Advanced Grand Opening and Promotion – Field	0	8	Your Watermill Express Station or another Watermill Express Station designated by us
TOTAL	23	24	

Notes:

1. The training may be less than the times indicated above depending on the number and experience of the attendees. We reserve the right to modify this training program at any time. We also reserve the right to contract with a third-party training company to provide the training program in the future.
2. We will use the Franchise Operations Manual, handouts, and video presentations as the primary instruction materials during the initial training program.
3. The training program is supervised by Lani Dolifka and Larry Pollard. Lani Dolifka has been involved with Watermill Express Stations for over 30 years. Larry Pollard has been involved with Watermill Express Stations for over 20 years and has been a company technician/instructor/tech support for 19 years.

#### *Ongoing Training*

From time to time, we may require that you, general managers, and other employees attend system-wide refresher or additional training courses. Some of these courses may be optional while others may be required. We reserve the right to charge a fee for any seminar or program where attendance is not mandatory. You must pay all travel, lodging, meals and other expenses incurred. If you appoint a new general manager, that person must attend and successfully complete our initial training program before assuming responsibility for the management of your Watermill Express Station. If we conduct an inspection of your Watermill Express Station and determine you are not operating in compliance with the Franchise Agreement, we may require that you attend remedial training that addresses your operational deficiencies. You may also request that we provide additional training (either at corporate headquarters or at your Watermill Express Station).

## ITEM 12 TERRITORY

### Franchise Agreement

You will receive an exclusive territory (“**Territory**”), which means that during the term of the Franchise Agreement, we will not establish or franchise others to establish another Watermill Express Franchise within your designated Territory. The Territory is determined based on the geographic area and populations properties within that area and other relevant demographic characteristics and will typically be a one-half mile radius around your Watermill Express Station. You are not prohibited from directly marketing to or soliciting customers whose principal residence is outside of your Territory. If you renew

your Franchise, your Territory may be modified depending on the then-current demographics of the Territory, and on our then-current standards for territories.

We, and our affiliates, have the right to operate, and to license others to operate, Watermill Express Stations at any location outside the Territory, even if doing so will or might affect the operation of your Watermill Express Station. We retain the right, for ourselves and our affiliates, on any terms we deem advisable, and without granting you any rights:

1. to own, franchise, or operate Watermill Express Stations at any location outside of the Territory and, if applicable, the Development Area, regardless of the proximity to your Watermill Express Station;

2. to use the Marks and the Dolifka System to sell any products or services, similar to those which you will sell, through any alternate channels of distribution outside of the Territory. This includes, but is not limited to, other channels of distribution such as television, catalog sales, wholesale to unrelated retail outlets, or over the Internet. We exclusively reserve the Internet as a channel of distribution for us, and you may not independently market on the Internet or conduct e-commerce without our prior written approval, which may be withheld in our sole discretion;

3. to offer and sell products under the Marks or any other marks, through retail operations other than Stations, including grocery stores, convenience stores, or other retail locations, restaurants, apartments, military bases, or recreational areas within or outside of the Territory;

4. to purchase or be purchased by, or merge or combine with, any business, including a business that competes directly with your Watermill Express Station, wherever;

5. to convert to the Dolifka System operated by us, any businesses offering services and products similar to those offered by Watermill Express Stations, including such businesses operated by competitors or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporately owned, and whether located inside or outside of the Territory, provided that in such situations the newly-acquired businesses may not operate under the Marks in the Territory;

6. to implement multi-area marketing programs which may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such multi-area marketing programs.

We are not required to pay you if we exercise any of the rights specified above within your Territory. The continuation of the Territory is not dependent upon your achievement of a certain sales volume, market penetration, or other contingency. We do not pay compensation for soliciting or accepting orders inside your Territory.

If you wish to purchase an additional Watermill Express Franchise, you must apply to us, and we may, at our discretion, offer an additional Watermill Express Franchise to you. We consider a variety of factors when determining whether to grant additional Watermill Express Franchises. Among the factors we consider, in addition to the then-current requirements for new Watermill Express franchises, are whether or not the franchisee is in compliance with the requirements under their current Franchise Agreement.

Except as provided in your Area Development Agreement, you do not receive the right to acquire additional Watermill Express Franchises within the Territory. You are not given a right of first refusal on the sale of existing Watermill Express Franchises.

### Area Development Agreement

Under the Area Development Agreement, you are assigned a Development Territory in which you must develop a designated number of Watermill Express Franchises. The size of the Development Territory will depend on the number of Stations to be developed, the demographics of the territory, the population and other factors. In certain densely populated metropolitan areas, a Development Territory may be small if it has a high population density, while Development Territories in less densely populated urban areas may have significantly larger areas. The Development Territory will be an exclusive territory for the development of Watermill Express Franchises during the term of the Area Development Agreement so long as you are in compliance with the agreement. This exclusivity grants you the exclusive rights to open Stations in the Development Territory provided that you follow the terms of the Area Development Agreement. The rights granted under the Area Development Agreement relate only to the development of the Watermill Express Stations identified in the Area Development Agreement. Except as provided in the Area Development Agreement, and subject to your full compliance with the Area Development Agreement and any other agreement among you or any of your affiliates and us or any of our affiliates, neither we nor our affiliates will establish or authorize any other person or entity, other than you, to establish a Watermill Express Station in your Development Territory during the term of the Area Development Agreement. However, we, our affiliates, and any other authorized person or entity (including any other Watermill Express Franchise) may, at any time, conduct any other type of activities within your Development Territory that we are permitted to conduct under the Franchise Agreement. The Development Territory will terminate upon the completion of the Development Schedule or the termination of the Area Development Agreement, whichever occurs first, and the only territorial protections that you will receive upon termination will be those under each individual Franchise Agreement.

Upon your failure to adhere to the Development Schedule, we may, among other things: (i) terminate the territorial exclusivity granted to Area Developer (ii) terminate the Area Development Agreement; (iii) reduce the area of the Development Territory; (iv) permit you to extend the Development Schedule; or (v) pursue any other remedy we may have at law or in equity, including but not limited to, a suit for non-performance.

The size of the Development Territory may be a single or multi-city area, single county area or some other area, and will be described in Attachment A of your Area Development Agreement. We will determine the Development Territory before you sign the Area Development Agreement based on various market and economic factors.

### National Accounts

We, and our affiliates, have the right to contract with “**National Accounts**” to establish and operate Watermill Express Stations and related services and products at National Account business locations. A National Account is a company that conducts business for its own account or through agents, affiliates, independent contractors or franchisees, in two (2) or more states, with eight (8) or more locations, and has contracted to establish and operate Watermill Express Stations and related products and services for three (3) or more locations from us, our affiliates and/or Watermill Express franchisees. If a National Account has a location in your Territory we will give you the right of first refusal to establish and operate the contracted Watermill Express Station on the agreed upon contract terms between us and the National Account. You must be in good standing with us and qualify, per the standards established by the National Account, to service the National Account. You will have 15 days to notify us of your decision. If you

agree to establish and operate the Watermill Express Station you must comply with the agreed upon contract terms and conditions. If you decline our offer of the National Account location, we or our affiliates have the right to establish and operate that contracted Station location. You will not receive any compensation or further rights to the National Account.

### **ITEM 13 TRADEMARKS**

The Franchise Agreement grants you the non-exclusive right and license to use the Dolifka System, which includes the use of the Marks. We will license the use of the Marks directly to you and our other franchisees until the time that each Franchise Agreement expires or is otherwise terminated. We have registrations with the United States Patent and Trademark Office (“USPTO”) for the following Marks:

<b>Trademark</b>	<b>Registration Number</b>	<b>Date of Registration</b>	<b>Status</b>
Watermill Express	1,651,912	July 23, 1991	Registered on the Principal Register
Watermill Express WE CARE ABOUT THE WATER YOU DRINK	2,396,047	October 17, 2000	Registered on the Principal Register
GET A BETTER WATER HABIT	3,761,137	March 16, 2010	Registered on the Principal Register
Watermill Express	4,142,648	May 15, 2012	Registered on the Principal Register
WATEROCKS	3,749,601	February 16, 2010	Registered on the Principal Register

There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, or any state trademark administrator or any court in connection with our Marks. There is no pending infringement, opposition or cancellation proceeding in connection with our Marks. There is no pending material litigation involving our Marks. All required affidavits have been filed.

No agreement significantly limits our right to use or license the Marks in any manner material to the Watermill Express Franchise. We do not know of any superior prior rights or infringing uses that could materially affect your use of the trademarks. You must follow our rules when using the Marks. You cannot use our name or Mark as part of a corporate name or with modifying words, designs, or symbols unless you receive our prior written consent. You must indicate to the public in any contract, advertisement, and with a conspicuous sign in your Watermill Express Station that you are an independently owned and operated licensed franchisee of WEF. You may not use the Marks in the sale of unauthorized services or products or in any manner we do not authorize. You may not use the Marks in any advertising for the transfer, sale, or other disposition of the Watermill Express Station, or any interest in the Franchise. All rights and goodwill from the use of the Marks accrue to us. If it becomes advisable at any time for us and/or you to modify or discontinue using any Mark and/or use one or more additional or substitute trademarks or service marks, you must comply with our directions within a reasonable time after receiving notice. We will not reimburse you for your direct expenses of changing signage, for any loss of revenue, or other indirect expenses due to any modified or discontinued Mark, or for your expenses of promoting a modified or substituted trademark or service mark.

We will defend you against any claim brought against you by a third party that your use of the Marks, in accordance with the Franchise Agreement, infringes upon that party’s intellectual property rights.

We may require your assistance, but we will exclusively control any proceeding or litigation relating to our Marks. We have no obligation to pursue any infringing users of our Marks. If we learn of an infringing user, we will take the action appropriate, but we are not required to take any action if we do not feel it is warranted. You must notify us within three (3) days if you learn that any party is using the Marks or a trademark that is confusingly similar to the Marks. We have the sole discretion to take such action as we deem appropriate to exclusively control any litigation or administrative proceeding involving a trademark licensed by us to you.

If it becomes advisable at any time, in our sole discretion, for us and/or you to modify or discontinue using any Mark and/or use one or more additional or substitute trademarks or service marks, you must comply with our directions within a reasonable time after receiving notice. We will not reimburse you for your direct expenses of changing signage, for any loss of revenue or other indirect expenses due to any modified or discontinued Mark, or for your expenses of promoting a modified or substituted trademark or service mark.

You must not directly or indirectly contest our right to the Marks. We may acquire, develop, and use additional marks not listed here, and may make those marks available for your use and for use by other franchisees.

#### **ITEM 14**

#### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

The Dolifka System is owned by our co-founders and Co-CEOs, Lani L. Dolifka and Donald P. Dolifka (jointly, the “**Dolifka’s**”). The Dolifka’s have licensed to us the rights to use and franchise the use of the Dolifka System to our franchisees. The license agreement may not be terminated by the Dolifka’s unless we breach any terms of the agreement.

The information in the Franchise Operations Manual is proprietary and is protected by copyright and other laws. The designs contained in the Marks, the layout of our advertising materials, and any other writings and recordings in print or electronic form are also protected by copyright and other laws. Although we have not applied for copyright registration for the Franchise Operations Manual, our advertising materials, or any other writings and recordings, we claim common law and federal copyrights in these items. We grant you the right to use this proprietary and copyrighted information (“**Copyrighted Works**”) for the operation of your Watermill Express Franchise, but such copyrights remain our sole property.

There are no effective determinations of the United States Copyright Office or any court regarding any Copyrighted Works of ours, nor are there any proceedings pending, nor are there any effective agreements between us and third parties pertaining to the Copyrighted Works that will or may significantly limit using our Copyrighted Works.

Our Franchise Operations Manual, electronic information and communications, sales and promotional materials, the development and use of our Dolifka System, standards, specifications, policies, procedures, information, concepts and systems on, knowledge of, and experience in the development, operation, and franchising of Watermill Express Stations, our training materials and techniques, information concerning product and service sales, operating results, financial performance and other financial data of Watermill Express Stations, and other related materials are proprietary and confidential (“**Confidential Information**”) and are our property to be used by you only as described in the Franchise Agreement and the Franchise Operations Manual. Where appropriate, certain information has also been identified as trade secrets (“**Trade Secrets**”). You must maintain the confidentiality of our Confidential Information and Trade Secrets and adopt reasonable procedures to prevent unauthorized disclosure of our Confidential Information and Trade Secrets.



We will disclose parts of the Confidential Information and Trade Secrets to you as we deem necessary or advisable for you to develop your Watermill Express Franchise during training and in guidance and assistance furnished to you under the Franchise Agreement, and you may learn or obtain from us additional Confidential Information and Trade Secrets during the term of the Franchise Agreement. The Confidential Information and Trade Secrets are valuable assets of ours and are disclosed to you on the condition that you, and your owners if you are a business entity, and consultants, contractors and employees agree to maintain the information in confidence by entering into a confidentiality agreement we can enforce. Nothing in the Franchise Agreement will be construed to prohibit you from using the Confidential Information or Trade Secrets in the operation of other Watermill Express Franchises during the term of the Franchise Agreement.

You must notify us within three (3) days after you learn about another's use of language, a visual image, or a recording of any kind that you perceive to be identical or substantially similar to one of our Copyrighted Works or use of our Confidential Information or Trade Secrets, or if someone challenges your use of our Copyrighted Works, Confidential Information, or Trade Secrets. We will take whatever action we deem appropriate, in our sole and absolute discretion, to protect our rights in and to the Copyrighted Works, Confidential Information, or Trade Secrets, which may include payment of reasonable costs associated with the action. However, the Franchise Agreement does not require us to take affirmative action in response to any apparent infringement of, or challenge to, your use of any Copyrighted Works, Confidential Information, or Trade Secrets, or claim by any person of any rights in any Copyrighted Works, Confidential Information, or Trade Secrets. You must not directly or indirectly contest our rights to our Copyrighted Works, Confidential Information, or Trade Secrets. You may not communicate with anyone except us, our counsel, or our designees regarding any infringement, challenge, or claim. We will take action as we deem appropriate regarding any infringement, challenge, or claim, and have the sole right to control, exclusively, any litigation or other proceeding arising out of any infringement, challenge, or claim under any Copyrighted Works, Confidential Information, or Trade Secrets. You must sign any and all instruments and documents, give the assistance, and do acts and things that may, in the opinion of our counsel, be necessary to protect and maintain our interests in any litigation or proceeding, or to protect and maintain our interests in the Copyrighted Works, Confidential Information, or Trade Secrets.

Three (3) issued patents are material to the Franchise ("**Patents**"). Our affiliate, WEL, was issued a patent on April 17, 2012 under Serial Number 11/863,119. WEL was issued a second patent on August 20, 2013 under Serial Number 13/420,771 and a third patent on August 16, 2016 under Serial Number 13/994,049. The title of the three patents is "**Chassis Assembly**." The Patents are mechanical patents and the duration for each is 20 years. WEL has licensed us to use and sublicense the Patents to you. Our right to use or license this patent is not materially limited by any agreement or known infringing use.

We will defend you against any claim brought against you by a third party that your use of the Patents, in accordance with the Franchise Agreement, infringes upon that party's intellectual property rights. We may require your assistance, but we will exclusively control any proceeding or litigation relating to our Patents. We have no obligation to pursue any infringing users of our Patents. If we learn of an infringing user, we will take the action appropriate, but we are not required to take any action if we do not feel it is warranted. You must notify us within three (3) days if you learn that any party is using the Patents or a trademark that is confusingly similar to the Patents. We have the sole discretion to take such action as we deem appropriate to exclusively control any litigation or administrative proceeding involving a trademark licensed by us to you.

If it becomes advisable at any time, in our sole discretion, for us and/or you to modify or discontinue using any Patent and/or use one or more additional or substitute methods, you must comply with our directions within a reasonable time after receiving notice. We will not reimburse you for your direct expenses, for any loss of revenue or other indirect expenses due to any modified or discontinued Patent.

**ITEM 15**  
**OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION**  
**OF THE FRANCHISE BUSINESS**

You are not required to participate personally in the direct operation and management of your Watermill Express Station. You must designate a general manager (“**General Manager**”) who has been approved by us to be responsible for overall management of your Watermill Express Station, and you must also designate an operations manager (“**Operations Manager**”) acceptable to us who has the authority and responsibility for the day-to-day operations of your Watermill Express Station, who is in charge of inspection and technical maintenance for the Watermill Express Station, and who will be principally responsible for communicating with us about the Watermill Express Station. One individual may serve both of these roles. Both the General Manager and the Operations Manager must successfully complete our mandatory training program for a Watermill Express Station (See Item 11). We do not require that the General Manager have an ownership interest in the legal entity of the Franchise owner. If you replace a General Manager, the new General Manager must satisfactorily complete our training program at your own expense.

All of your managers, employees, independent contractors, agents, or representatives that may have access to our Confidential Information must sign a confidentiality agreement (unless they already signed a System Protection Agreement), the current form of which is attached to this Franchise Disclosure Document in **Exhibit H**. If you are an entity, each owner (i.e., each person holding an ownership interest in you) must sign an owner’s agreement, the form of which is attached to the Franchise Agreement as **Attachment B**. We also require that the spouses of the Franchise owners sign the owner’s agreement.

**ITEM 16**  
**RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must sell or offer for sale only those services and products authorized by us, and which meet our standards and specifications. Authorized products may differ among our franchisees, and may vary depending on the operating season and geographic location of your Watermill Express Station or other factors. You must follow our policies, procedures, methods, and techniques. You must sell or offer for sale all types of services and products specified by us. We may change or add to our required services and products, at our discretion, with prior notice to you. If we change or add to our required services and products, the changes or additions will remain in permanent effect, unless we specify otherwise. The amount you must pay for the changes or additions will depend upon the nature and type of changes or additions. You must discontinue selling and offering for sale any services or products that we disapprove. We reserve the right to establish minimum and maximum resale prices for use with multi-area marketing programs and special price promotions.

You may not sell products or services, or advertise products or services within the Territory of another Watermill Express Station. You may not establish an account or participate in any social networking sites (including, without limitation, Facebook, Twitter, Instagram or any other social or professional networking site or blog) or mention or discuss the Franchise, us, or any of our affiliates without our prior written consent, and as subject to our online policy. Our online policy may completely prohibit you from any use of the Marks in social networking sites or other online use. You may not sell products through other channels of distribution such as wholesale, Internet, or mail order sales. We may restrict your sale of products and services to National Account locations in your Territory to which you have declined to provide products and services. Otherwise, we place no restrictions upon your ability to serve customers provided you do so from the location of your Watermill Express Station in accordance with our policies.

**ITEM 17**  
**RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

**This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this Franchise Disclosure Document.**

**THE FRANCHISE RELATIONSHIP**

Provision		Section in Franchise Agreement	Summary
a.	Length of the Franchise term	Section 4.1	Ten (10) years.
b.	Renewal or extension of the term	Sections 4.2, 4.3 and 4.4	If you are in good standing and you meet other requirements, you may add one (1) successor terms of ten (10) years.
c.	Requirements for Franchisee to renew or extend	Section 4.3	Your successor franchise rights permit you to remain as a Franchise after the initial term of your Franchise Agreement expires. You must provide written notice to us, not be in breach during the 180 days before or following expiration of initial term, be in substantial compliance with the Franchise Agreement during the initial term, remodel Watermill Express Station(s) and location premises, pay successor franchise fee, secure and provide proof of right to remain in possession of Watermill Express Station(s) and location premises throughout renewal term, sign our then-current form of franchise agreement for the successor term, and this new franchise agreement may have materially different terms and conditions (including, e.g., higher royalty and advertising contributions) from the Franchise Agreement that covered your original term, sign a release, and agree to new development schedule.
d.	Termination by Franchisee	Section 15	You may terminate the Franchise Agreement if you are in compliance with it, and we are in material breach, and we fail to cure that breach within 30 days of receiving written notice.
e.	Termination by franchisor without cause	None	Not Applicable.
f.	Termination by franchisor with “cause”	Sections 15.1 and 15.2	We can terminate upon certain violations of the Franchise Agreement by you.
g.	Curable defaults	Sections 15.1 and 15.2	You have 30 days to cure operational defaults, and ten (10) days to cure monetary defaults.

Provision		Section in Franchise Agreement	Summary
h.	Non-curable defaults	Section 15.1	Non-curable defaults: the defaults listed in Section 15.1 of the Franchise Agreement.
i.	Franchisee's obligations on termination/non-renewal	Section 15.4	Obligations include payment of amounts due; cease of use of Marks and Licensed Methods; at our or WEL's option, sale of the proprietary water and ice dispensing equipment to WEL (see o. below); return of Franchise Operations Manual, all records, Trade Secrets, and Confidential Information, including software, assignment of telephone number, cancellation of fictitious or assumed name registrations; covenant not to compete (See also r).
j.	Assignment of contract by franchisor	Section 14.7	No restriction on our right to assign.
k.	"Transfer" by Franchisee – defined	Sections 14.1, 14.5 and 14.6	Includes any voluntary, involuntary, direct, or indirect assignment, sale, gift, exchange, grant of a security interest, or change of ownership in the Franchise Agreement, the Franchise, or interest in the Franchise.
l.	Franchisor approval of transfer by Franchisee	Sections 14.2, 14.3, 14.5 and 14.6	We have the right to approve all transfers.
m.	Conditions for franchisor approval of transfer	Sections 14.2, 14.3, 14.5, and 14.6	Notice of terms and conditions of transfer; transferee qualifies; all amounts due are paid in full; transferee completes training; transferee acquires full title for existing Watermill Express Stations; transfer fee paid; then-current contract signed; Franchisee signs general release and noncompetition covenant.
n.	Franchisor's right of first refusal to acquire Franchisee's business	Section 14.4	We have 30 days to match any offer for your business.
o.	Franchisor's option to purchase Franchisee's business	Section 15.3	We may, but are not required to, purchase your Franchise, inventory, or Equipment at fair market value if your Franchise is terminated for any reason.
p.	Death or disability of Franchisee	Section 14.6	The agreement must be transferred or assigned to a qualified party within 180 days of death or disability or the Franchise Agreement may be terminated.
q.	Noncompetition covenants during the term of the Franchise	Section 16.1	You may not participate in a diverting business, have no owning interest in, loan money to, or perform services for a competitive business anywhere. You may not interfere with our or our other franchisees' Watermill Express Franchises.

Provision		Section in Franchise Agreement	Summary
r.	Non-competition covenants after the Franchise is terminated or expires	Section 16.2	Owners may not have an interest in, own, manage, operate, finance, control, or participate in any competitive business within 15 miles of the Station or any Watermill Express Station for two (2) years. Owners may not solicit any customer, employee, or independent contractor of the Franchise or any Watermill Express Franchise for two (2) years.
s.	Modification of agreement	Section 18.7	No modifications of the Franchise Agreement during the term unless agreed to in writing, but the Franchise Operations Manual is subject to change at any time in our discretion. Modifications are permitted on renewal.
t.	Integration/merger clause	Section 18.1	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to applicable state law). Any representations or promises outside of this Franchise Disclosure Document and Franchise Agreement may not be enforceable.
u.	Dispute resolution by arbitration or mediation	Section 16	Except for certain claims, all disputes must be mediated in Brighton, Colorado. This provision is subject to state law.
v.	Choice of forum	Sections 16.6 and 16.8	All disputes must be mediated, and if applicable, litigated in Denver, Colorado, except as provided in the State-Specific Addendum, subject to applicable state law.
w.	Choice of law	Section 16.8	Colorado law, except for the Colorado Business Opportunity Investment Act applies, subject to any contrary provision contained in the State-Specific Addendum (See <u>Exhibit F</u> ). Colorado law applies, except as provided in the State-Specific Addendum, subject to applicable state law.

## AREA DEVELOPMENT AGREEMENT

Provision		Section in Area Development Agreement	Summary
a.	Term of the franchise (Area Development Agreement)	Section 2 and Attachment B	Negotiable.
b.	Renewal or extension of the term	None	Not Applicable.
c.	Requirements for you to renew or extend contract	None	Not Applicable.
d.	Termination by you	None	No Applicable.
e.	Termination by us without cause	None	Not Applicable.
f.	Termination by us with cause	Sections 4.2, 7.1 and 7.2	We can terminate if you default on the Area Development Agreement or any of your Franchise Agreements.
g.	“Cause” defined-defaults which can be cured	None	Not Applicable.
h.	“Cause” defined-defaults which cannot be cured	Sections 4.2, 7.1 and 7.2	See h. of Franchise Agreement chart.
i.	Your obligations on termination/nonrenewal	None	You remain bound to all Franchise Agreements (see also r.)
j.	Assignment of contract by us	Section 8.1	No restriction on our right to assign.
k.	“Transfer” by you – definition	None	Not Applicable.
l.	Our approval of transfer by you	None	Not Applicable.
m.	Conditions for our approval of transfer	None	Not Applicable.
n.	Our right of first refusal to acquire your business	None	Not Applicable.
o.	Our option to purchase your business	None	Not Applicable.
p.	Your death or disability	None	Not Applicable.
q.	Non-competition covenants during the term of the franchise	None	None
r.	Non-competition covenants after the franchise is terminated or expires	None	None
s.	Modification of the agreement	Section 10	No modification except on execution of a written agreement.
t.	Integration/merger clause	Section 10	Only terms of Area Development Agreement and to the extent not inconsistent terms of the Franchise Agreement are binding.

Provision		Section in Area Development Agreement	Summary
u.	Dispute resolution by arbitration or mediation	Sections 15.1, 15.2 and 15.3	Except for certain claims, all disputes must be arbitrated in Brighton, Colorado. This provision is subject to state law.
v.	Choice of forum	Sections 13, 15.1, 15.2 and 15.3	All disputes must be mediated, and if applicable, litigated in Denver, Colorado, except as provided in the State-Specific Addendum, subject to applicable state law.
w.	Choice of law	Section 13	Colorado law, except for the Colorado Business Opportunity Investment Act applies, subject to any contrary provision contained in the State-Specific Addendum (See <u>Exhibit F</u> ). Colorado law applies, except as provided in the State-Specific Addendum, subject to applicable state law.

## ITEM 18 PUBLIC FIGURES

We do not use any public figure to promote our Franchise.

## ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided by this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

As of December 31, 2018, we had a total of 969 affiliate-owned Stations and 313 franchise-owned Stations. Of the 969 affiliate-owned Stations, 659 sold water and 310 sold water and ice. Of the 313 franchise-owned Stations, 299 sold water and 14 sold water and ice. The first set of charts below represent the operating results of only those Watermill Express Stations that provide both water and ice which were open for the full 2018 calendar year. This includes 279 affiliate-owned Stations and 11 franchise-owned Stations.

## WATER AND ICE STATIONS

### AFFILIATE-OWNED STATIONS

	Total	Percentage Of Average Annual Sales	Median
Number of Stations	279		
Average Annual Sales <sup>(1)</sup>	\$70,652	100.0%	\$67,033
Average Cost Of Goods Sold <sup>(2)</sup>	\$3,633	5.1%	\$3,158
Average Gross Profit <sup>(3)</sup>	\$67,019	94.9%	\$63,875
Direct Expenses:			
Average Electricity Expense <sup>(4)</sup>	\$3,023	4.3%	\$2,936
Average Telephone Expense <sup>(4)</sup>	\$143	0.2%	\$143
Total Average Direct Expenses <sup>(5)</sup>	\$3,166	4.5%	\$3,079
Average Income Before Lease Expense <sup>(6)</sup>	\$63,853	90.4%	\$60,796
Average Lease Expense <sup>(7)</sup>	\$7,759	11.0%	\$7,706
Average Income After Lease Expense <sup>(8)</sup>	\$56,094	79.4%	\$53,090
Average Royalty Expense <sup>(9)</sup>	\$0	0.0%	\$0
Brand Building Fund Contributions <sup>(10)</sup>	\$0	0.0%	\$0
Average Income After Brand Building Fund Contributions <sup>(11)</sup>	\$56,094	79.4%	\$53,090

1. Average Annual Sales. The average annual sales figure consists of both water and ice sales. The lowest and highest annual sales of this group were \$21,669 and \$169,779, respectively. Of the 279 water and ice Stations, 120 (43.0%) met or exceeded the average. Sales information was derived from records generated by our proprietary sales reporting system. The majority of these Stations are located in markets where Watermill Express Stations have an established presence and brand recognition. The sales for water and ice Stations include the results from water and ice Stations which were installed at new sites, as well as established locations which were converted from water only to water and ice Stations. Water sales at the converted locations include results which are significantly higher than at new locations, due to the number of years those sites have been in operation. A franchisee's financial results may differ greatly from the results presented in the above chart.
2. Average Cost of Goods Sold. The average cost of goods sold was derived from Station level records and represents the average water and sewer charges associated with operating a Station. Of the 279 water and ice Stations, 112 (40.1%) met or exceeded the average.



3. Average Gross Profit. The average gross profit was derived by taking the average annual sales figure presented in the chart above and subtracting the average cost of goods sold figure. Of the 279 water and ice Stations, 118 (42.3%) met or exceeded the average.
4. Average Electricity and Telephone Expenses. The average electricity and telephone expenses were derived from Station level records. Of the electricity expense average for 279 water and ice Stations, 128 (45.9%) met or exceeded the average. Of the telephone expense average for 279 water and ice Stations, all units met or exceeded the average.
5. Total Average Direct Expenses. The total average direct expenses were derived by adding the average electricity expense figure presented in the chart above with the average telephone expense figure. Of the 279 water and ice Stations, 128 (45.9%) met or exceeded the average.
6. Average Income Before Lease Expense. The average income before lease expense was derived by taking the average gross profit figure presented in the chart above and subtracting the total average direct expenses figure. Of the 279 water and ice Stations, 118 (42.3%) met or exceeded the average.
7. Average Lease Expense. The average lease expense was derived from Station level records and represents the average cost of leasing a site for operating a Station. If a franchisee uses its own property for operating a Station, it will not incur this cost but may incur costs related to the purchase of the property. Of the 279 water and ice Stations, 137 (49.1%) met or exceeded the average.
8. Average Income After Lease Expense. The average income after lease expense was derived by taking the average gross profit figure presented in the chart above and subtracting the total average direct expenses figure and the average lease expense figure. Of the 279 water and ice Stations, 119 (42.7%) met or exceeded the average.
9. Average Royalty Expense. Affiliate-owned stations do not incur royalty expense.
10. Brand Building Fund Contributions. Affiliate-owned stations do not incur brand building fund contributions.
11. Average Income After Brand Building Fund Contributions. The average income after brand building fund contributions was derived by taking the average income after lease expense figure presented in the chart above and subtracting the average royalty expense figure and the brand building fund contributions figure. Of the 279 water and ice Stations, 119 (42.7%) met or exceeded the average.

#### **Imputed Annual Expenses to Franchisor**

<b>Expense</b>	<b>Amount Required Per Franchise Agreement</b>	<b>Annual Amounts Imputed For Affiliate Owned Stations Results</b>	<b>Adjusted Net Profits*</b>
Royalty Expense	5.1% of Gross Sales	\$3,603	\$52,491
Brand Building Contributions	2% of Gross Sales	\$1,413	\$54,681

<b>Total Imputed Annual Expenses</b>		\$5,016	\$51,078
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Notes:

1. These additional expenses are based on categories of fees that you will be required to pay us under the Franchise Agreement for your Watermill Express Station Franchise. These calculations are illustrations based on the Affiliate's performance at their locations for the Reporting Period. Affiliates do not pay these sums to us.
2. The adjusted Net Profit is otherwise calculated by subtracting from the amount of average income after lease expense for the Reporting Period set out in the Affiliate-Owned Stations Table.

**IMPORTANT NOTE REGARDING THE AFFILIATE-OWNED STATIONS:**

1. **General Overhead and Labor Expenses.** The chart above does not include any estimates for general overhead expenses associated with operating a company, such as accounting and legal services, office expenses, office rent, and corporate insurance, as this is dependent on the structure of your business. The chart above also does not include any estimates for other operational expenses, such as labor and benefit costs and vehicle expenses, as this is dependent on the structure of your operations. Finally, this chart does not provide any estimates for maintenance and other operating expenses of the Stations. Please see the section below entitled "**MAINTENANCE EXPENSES AND OTHER OPERATING EXPENSES**" for more information regarding these expenses. You are strongly urged to conduct an independent investigation of the costs and expenses you will incur in operating your franchise.
2. **Closures.** None of the excluded water and ice outlets closed during 2018.

**FRANCHISE-OWNED STATIONS**

	<b>Total</b>	<b>Percentage Of Average Annual Sales</b>	<b>Median</b>
Number of Stations	11		
Average Annual Sales <sup>(1)</sup>	\$71,702	100.0%	\$76,404
Average Cost Of Goods Sold <sup>(2)</sup>	\$4,235	5.9%	\$3,628
Average Gross Profit <sup>(3)</sup>	\$67,467	94.1%	\$72,776
Direct Expenses:			
Average Electricity Expense <sup>(4)</sup>	\$1,948	2.7%	\$2,229
Average Telephone Expense <sup>(4)</sup>	\$392	0.6%	\$368
Total Average Direct Expenses <sup>(5)</sup>	\$2,340	3.3%	\$2,597
Average Income Before Lease Expense <sup>(6)</sup>	\$65,127	90.8%	\$70,179
Average Lease Expense <sup>(7)</sup>	\$7,909	11.0%	\$9,000
Average Income After Lease Expense <sup>(8)</sup>	\$57,218	79.8%	\$61,179

	Total	Percentage Of Average Annual Sales	Median
Average Royalty Expense <sup>(9)</sup>	\$3,629	5.1%	\$3,865
Average Income After Royalty Expense <sup>(10)</sup>	\$53,589	74.7%	\$57,314
Brand Building Fund Contributions <sup>(10)</sup> (11)	\$0	0.0%	\$0
Average Income After Brand Building Fund Contributions	\$53,589	74.7%	\$57,314

1. Average Annual Sales. The lowest and highest annual gross sales of the group in the chart above were \$9,978 and \$135,747, respectively. The average annual sales is comprised of both water and ice sales. Sales information was derived from records generated by our proprietary sales reporting system. Of the 11 water and ice Stations, 7 (63.6%) met or exceeded the average. These Stations are located in markets where Watermill Express Stations have an established presence and brand recognition. The sales for water and ice Stations include the results from water and ice Stations which were installed at new sites, as well as established locations which were converted from water only to water and ice Stations. Water sales at the converted locations include results which are significantly higher than at new locations, due to the number of years those sites have been in operation. A franchisee's financial results may differ greatly from the results presented in the above chart.

Actual sales may vary from location to location and depend on a variety of internal and external factors, many of which neither we nor our prospective franchisee can control, such as weather, location, competition, local water quality, economic climate, demographics, and changing consumer demands and tastes. A franchisee's ability to achieve any level of sales will depend on these factors and others, including the franchisee's level of business expertise. Accordingly, we cannot, and do not, estimate the results of any particular franchise.

2. Average Cost of Goods Sold. The average cost of goods sold was derived from Station level records and represents the average water and sewer charges associated with operating a Station. Of the 11 water and ice Stations, 5 (45.5%) met or exceeded the average.
3. Average Gross Profit. The average gross profit was derived by taking the average annual sales figure presented in the chart above and subtracting the average cost of goods sold figure. Of the 11 water and ice Stations, 7 (63.6%) met or exceeded the average.
4. Average Electricity and Telephone Expenses. The average electricity and telephone expenses were derived from Station level records. Of the average electricity expense for 11 water and ice Stations, 6 (54.5%) met or exceeded the average. Of the average telephone expense for 11 water and ice Stations, 3 (27.3%) met or exceeded the average.
5. Total Average Direct Expenses. The total average direct expenses were derived by adding the average electricity expense figure presented in the chart above with the average telephone expense figure. Of the 11 water and ice Stations, 6 (54.5%) met or exceeded the average.

6. Average Income Before Lease Expense. The average income before lease expense was derived by taking the average gross profit figure presented in the chart above and subtracting the total average direct expenses figure. Of the 11 water and ice Stations, 7 (63.6%) met or exceeded the average.
7. Average Lease Expense. The average lease expense was derived from Station level records and represents the average cost of leasing a site for operating a Station. If a franchisee uses its own property for operating a Station, it will not incur this cost but may incur costs related to the purchase of the property. Of the 11 water and ice Stations, 8 (72.7%) met or exceeded the average
8. Average Income After Lease Expense. The average income after lease expense was derived by taking the average gross profit figure presented in the chart above and subtracting the total average direct expenses figure and the average lease expense figure. Of the 11 water and ice Stations, 7 (63.6%) met or exceeded the average.
9. Average Royalty Expense. The average royalty expense was derived from Station level sales records and represents the average cost of royalties associated with operating a Station. Of the franchise-owned Stations, one franchisee pays a Royalty of 5%, one franchisee pays a Royalty of 6% and one franchisee pays a Royalty of 3% to 7% depending on the age of the station in accordance with their franchise agreements. Of the 11 water and ice Stations, 6 (54.5%) met or exceeded the average.
10. Brand Building Fund Contributions. WEF may require franchisees to contribute up to 2% to a brand building fund, however, no franchisees were required to contribute to the fund during 2018.
11. Average Income After Brand Building Fund Contributions. The average income after brand building fund contributions was derived by taking the average income after lease expense figure presented in the chart above and subtracting the average royalty expense figure and brand building fund contributions. Of the 11 water and ice Stations, 7 (63.6%) met or exceeded the average.

#### IMPORTANT NOTES REGARDING THE FRANCHISE-OWNED STATIONS:

1. General Overhead and Labor Expenses. The chart above does not include any estimates for general overhead expenses associated with operating a company, such as accounting and legal services, office expenses, office rent, and corporate insurance, as this is dependent on the structure of your business. The chart above also does not include any estimates for other operational expenses, such as labor and benefit costs and vehicle expenses, as this is dependent on the structure of your operations. Finally, this chart does not provide any estimates for maintenance and other operating expenses of the Stations. Please see the section below entitled “**MAINTENANCE EXPENSES AND OTHER OPERATING EXPENSES**” for more information regarding these expenses. You are strongly urged to conduct an independent investigation of the costs and expenses you will incur in operating your franchise.
2. Closures. None of the excluded water and ice outlets closed during 2018.

## MAINTENANCE EXPENSES AND OTHER OPERATING EXPENSES

The charts above do not include maintenance expenses, which represent the cost of parts and supplies used to operate the Station, and other operating expenses, which include the cost of personal property taxes for the Station, health and business permits, laboratory fees required by regulatory agencies for testing the water quality, and uniforms, as these expenses are not tracked at the Station level. Therefore, we are unable to provide data on those Stations that met or exceeded an average number. However, we estimate that maintenance expenses will range between 3% and 6% of water and ice sales. This estimate is based on the 2018 average maintenance expense per Station for all 969 water only and water and ice Stations, which amounted to approximately 3% of water and ice sales, and was increased to reflect the addition of parts used in the production of ice in our water and ice Stations.

We estimate that other operating expenses will range between 1% and 3% of water and ice sales. This estimate is based on the 2018 average other operating expense per Station for all 969 water only and water and ice Stations, which amounted to approximately 1% of water and ice sales. This amount was increased to reflect additional personal property taxes incurred for water and ice Stations, due to the higher value and average age of a water and ice Station.

In estimating these expenses, we assumed that the franchise-operated Stations that provide water and ice will experience similar expenses as the affiliate-owned Stations. If this assumption is incorrect, franchisee's actual expenses may vary from the estimate. Also, as these figures were prepared based primarily on water only Stations, water and ice Stations may experience higher expenses in these categories.

We have written substantiation in our possession to support the information appearing in this Item 19. This substantiation will be made available by us to all prospective franchisees upon reasonable request. Franchisees or former franchisees listed in this disclosure document may also be a source of information.

All charts in this Item 19 do not include any estimate for federal, state, or local taxes that may be applicable to the particular jurisdiction in which a Watermill Express Station is located. You are strongly urged to consult with your tax advisors regarding the impact that taxes will have on the amounts shown in the above charts.

**Some stations have earned this amount. Your individual results may differ. There is no assurance that you'll earn as much.**

We do not make any financial performance representations, other than those representations set forth above. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing Watermill Express Station, however, we may provide you with the actual records of that Watermill Express Station. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Lani Dolifka at 1177 South Fourth Avenue, Brighton, Colorado 80601, (303) 659-1573, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20**  
**OUTLETS AND FRANCHISEE INFORMATION**

**Table No. 1: System-wide Outlet Summary  
For Years 2016- 2018**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised Outlets	2016	303	306	+3
	2017	306	311	+5
	2018	311	313	+2
Company-Owned*	2016	1,003	994	-9
	2017	994	983	-11
	2018	983	969	-14
<b>Total Outlets</b>	<b>2016</b>	<b>1,306</b>	<b>1,300</b>	<b>-6</b>
	<b>2017</b>	<b>1,300</b>	<b>1,294</b>	<b>-6</b>
	<b>2018</b>	<b>1,294</b>	<b>1,282</b>	<b>-12</b>

\*We do not own or operate any Watermill Express Stations. The company-owned outlets listed in this chart include the Watermill Express Stations owned and operated by our affiliate, WEL.

**Table No. 2: Transfers from Franchisees to New Owners (other than the Franchisor)  
For Years 2016-2018**

State	Year	Number of Transfers
<b>Totals</b>	<b>2016</b>	<b>0</b>
	<b>2017</b>	<b>0</b>
	<b>2018</b>	<b>0</b>

**Table No. 3: Status of Franchised Outlets  
For Years 2016-2018**

State	Year	Outlets at Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
Arizona	2016	103	3	0	0	0	2	104
	2017	104	2	0	0	0	0	106
	2018	106	3	0	0	0	2	107
California	2016	105	1	0	0	0	0	106
	2017	106	0	0	0	0	0	106
	2018	106	0	0	0	0	0	106
Illinois	2016	0	2	0	0	0	0	2
	2017	2	1	0	0	0	0	3

State	Year	Outlets at Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
	2018	3	0	0	0	0	0	3
Ohio	2016	1	0	0	0	0	0	1
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
Texas	2016	94	0	0	0	0	1	93
	2017	93	2	0	0	0	0	95
	2018	95	2	0	0	0	1	96
<b>TOTALS</b>	<b>2016</b>	<b>303</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>306</b>
	<b>2017</b>	<b>306</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>311</b>
	<b>2018</b>	<b>311</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>313</b>

**Table No. 4: Status of Company-Owned Outlets  
For Years 2016-2018**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
Arizona	2016	26	0	0	1	0	25
	2017	25	1	0	1	0	25
	2018	25	0	0	2	0	23
California	2016	107	0	0	2	0	105
	2017	105	0	0	2	0	103
	2018	103	0	0	2	0	101
Colorado	2016	10	0	0	0	0	10
	2017	10	1	0	1	0	10
	2018	10	0	0	0	0	10
Florida	2016	57	0	0	0	0	57
	2017	57	0	0	3	0	54
	2018	54	0	0	2	0	52
Louisiana	2016	26	0	0	1	0	25
	2017	25	0	0	0	0	25
	2018	25	0	0	0	0	25
Nevada	2016	89	0	0	0	0	89
	2017	89	0	0	4	0	85
	2018	85	1	0	1	0	85
New Mexico	2016	18	0	0	0	0	18
	2017	18	0	0	0	0	18

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
	2018	18	0	0	0	0	18
Texas	2016	670	4	0	9	0	665
	2017	665	9	0	11	0	663
	2018	663	5	0	13	0	655
<b>TOTALS</b>	<b>2016</b>	<b>1,003</b>	<b>4</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>994</b>
	<b>2017</b>	<b>994</b>	<b>11</b>	<b>0</b>	<b>22</b>	<b>0</b>	<b>983</b>
	<b>2018</b>	<b>983</b>	<b>6</b>	<b>0</b>	<b>20</b>	<b>0</b>	<b>969</b>

\*We do not own or operate any Watermill Express Stations. The company-owned outlets listed in this chart include the Watermill Express Stations owned and operated by our affiliate, WEL.

**Table No. 5: Projected Openings as of December 31, 2018**

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company-Owned Outlets in the Next Fiscal Year
Arizona	0	1	1
California	0	1	3
Texas	0	1	11
<b>Total</b>	<b>0</b>	<b>3</b>	<b>15</b>

For purposes of the charts above, an “**Outlet**” is an individual Station. The names, addresses, and telephone numbers of our current franchisees are attached to this Franchise Disclosure Document as **Exhibit E**. The name and last known address and telephone number of every current franchisee and every franchisee who has had a Watermill Express Franchise terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under our franchise agreement during the one (1) year period ending December 31, 2018, or who has not communicated with us within ten (10) weeks of the Issuance Date of this Franchise Disclosure Document, is listed in **Exhibit E**. In some instances, current and former franchisees may sign provisions restricting their ability to speak openly about their experiences with Watermill Express. You may wish to speak with current and former franchisees, but know that not all such franchisees can communicate with you. If you buy a Watermill Express Franchise, your contact information may be disclosed to other buyers when you leave the Franchise system.

During the last 3 fiscal years, no current or former franchisees have signed any confidentiality clauses which restrict them from discussing with you their experiences as a franchisee in the Watermill Express franchise system.

As of the Issuance Date of this Franchise Disclosure Document, there are no franchise organizations sponsored or endorsed by us and no independent franchisee organizations have asked to be included in this Franchise Disclosure Document. We do not have any trademark specific Franchise organizations.



**ITEM 21**  
**FINANCIAL STATEMENTS**

**Exhibit D** contains the audited financial statements required to be included with this Franchise Disclosure Document: December 31, 2018, December 31, 2017, and December 31, 2016, as well as unaudited financial statements dated March 31, 2019. Our fiscal year end is December 31.

**ITEM 22**  
**CONTRACTS**

Exhibit B	Franchise Agreement
Exhibit C	Area Development Agreement
Exhibit F	State Addenda and Agreement Riders
Exhibit H	Contracts for use with the Watermill Express Franchise
Exhibit I	Franchise Disclosure Questionnaire

**ITEM 23**  
**RECEIPT**

The last pages of this Franchise Disclosure Document, **Exhibit J**, are a detachable document, in duplicate. Please detach, sign, date, and return one (1) copy of the Receipt to us, acknowledging you received this Franchise Disclosure Document. Please keep the second copy for your records.

**EXHIBIT A**

**STATE ADMINISTRATORS AND  
AGENTS FOR SERVICE OF PROCESS**

**STATE ADMINISTRATORS AND  
AGENTS FOR SERVICE OF PROCESS**

<b>STATE</b>	<b>STATE ADMINISTRATOR</b>	<b>AGENT FOR SERVICE OF PROCESS</b>
<b>CALIFORNIA</b>	California Department of Business Oversight One Sansome Street, Suite 600 San Francisco, CA 94104 415-972-8559 1-866-275-2677	California Commissioner of Business Oversight 320 West 4th Street, Suite 750 Los Angeles 90013-2344 1-866-275-2677
<b>CONNECTICUT</b>	Securities and Business Investment Division Connecticut Department of Banking 260 Constitution Plaza Hartford, CT 06103 860-240-8230	Connecticut Banking Commissioner Same Address
<b>FLORIDA</b>	Department of Agriculture & Consumer Services Division of Consumer Services Mayo Building, Second Floor Tallahassee, FL 32399-0800 850-245-6000	Same
<b>GEORGIA</b>	Office of Consumer Affairs 2 Martin Luther King Drive, S.E. Plaza Level, East Tower Atlanta, GA 30334 404-656-3790	Same
<b>HAWAII</b>	Department of Commerce and Consumer Affairs Business Registration Division Commissioner of Securities 335 Merchant Street, Room 203 Honolulu, HI 96813 808-586-2722	Commissioner of Securities of the State of Hawaii Dept. of Commerce and Consumer Affairs Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, HI 96813
<b>ILLINOIS</b>	Franchise Division Office of the Attorney General 500 South Second Street Springfield, IL 62706 217-782-4465	Illinois Attorney General Same Address
<b>INDIANA</b>	Securities Commissioner Indiana Securities Division 302 West Washington Street, Room E 111 Indianapolis, IN 46204 317-232-6681	Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, IN 46204
<b>IOWA</b>	Iowa Securities Bureau Second Floor Lucas State Office Building Des Moines, IA 50319 515-281-4441	Same
<b>KENTUCKY</b>	Kentucky Attorney General's Office Consumer Protection Division 1024 Capitol Center Drive Frankfort, KY 40602 502-696-5389	Same

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
<b>LOUISIANA</b>	Department of Urban & Community Affairs Consumer Protection Office 301 Main Street, 6th Floor One America Place Baton Rouge, LA 70801 504-342-7013 (gen. info.) 504-342-7900	Same
<b>MAINE</b>	Department of Business Regulations State House - Station 35 Augusta, ME 04333 207-298-3671	Same
<b>MARYLAND</b>	Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, MD 21202 410-576-6360	Maryland Securities Commissioner Same Address
<b>MICHIGAN</b>	Michigan Department of Attorney General Consumer Protection Division Antitrust and Franchise Unit 525 W. Ottawa Street G. Mennen Williams Building, 1 <sup>st</sup> Floor Lansing, MI 48913 517-373-7117	Michigan Department of Commerce Corporations and Securities Bureau Same Address
<b>MINNESOTA</b>	Minnesota Department of Commerce 85 7 <sup>th</sup> Place East, Suite 500 St. Paul, MN 55101 651-539-1500	Minnesota Commissioner of Commerce Same Address
<b>NEBRASKA</b>	Department of Banking and Finance Bureau of Securities/Financial Institutions Division 1526 K Street, Suite 300 Lincoln, NE 68508-2732 P.O. Box 95006 Lincoln, Nebraska 68509-5006 Tele: 402-471-2171	Same
<b>NEW HAMPSHIRE</b>	Attorney General Consumer Protection and Antitrust Bureau State House Annex Concord, NH 03301 603-271-3641	Same
<b>NEW YORK</b>	New York State Department of Law Investor Protection Bureau 28 Liberty St. 21 <sup>st</sup> floor New York, NY 10005 212-416-8236	New York Department of State One Commerce Plaza 99 Washington Avenue, 6th Floor Albany, NY 12231
<b>NORTH CAROLINA</b>	Secretary of State's Office/Securities Division 2 South Salisbury Street Raleigh, NC 27601 919-733-3924	Secretary of State Secretary of State's Office Same Address

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
<b>NORTH DAKOTA</b>	North Dakota Securities Department 600 East Boulevard Avenue State Capitol, Fifth Floor Bismarck, ND 58505-0510 701-328-4712; Fax: 701-328-0140	North Dakota Securities Commissioner Same Address
<b>OHIO</b>	Attorney General Consumer Fraud & Crime Section State Office Tower 30 East Broad Street, 15th Floor Columbus, OH 43215 614-466-8831 or 800-282-0515	Same
<b>OKLAHOMA</b>	Oklahoma Securities Commission 2915 Lincoln Blvd. Oklahoma City, OK 73105 405-521-2451	Same
<b>OREGON</b>	Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, OR 96310 503-378-4387	Director Department of Insurance and Finance Same Address
<b>RHODE ISLAND</b>	Rhode Island Department of Business Regulation Securities Division John O. Pastore Center – Building 69-1 1511 Pontiac Avenue Cranston, RI 02920 401-222-3048	Director, Rhode Island Department of Business Regulation Same address
<b>SOUTH CAROLINA</b>	Secretary of State P.O. Box 11350 Columbia, SC 29211 803-734-2166	Same
<b>SOUTH DAKOTA</b>	South Dakota Department of Labor and Regulation Division of Insurance, Securities Regulation 124 S. Euclid Avenue, Suite 104 Pierre, SD 57501 605-773- 3563	Director of the South Dakota Division of Insurance, Securities Regulation Same Address
<b>TEXAS</b>	Secretary of State Statutory Documents Section P.O. Box 12887 Austin, TX 78711-2887 512-475-1769	Same
<b>UTAH</b>	Utah Department of Commerce Consumer Protection Division 160 East 300 South (P.O. Box 45804) Salt Lake City, UT 84145-0804 TELE: 801-530-6601 FAX:801-530-6001	Same

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
<b>VIRGINIA</b>	State Corporation Commission Division of Securities and Retail Franchising Tyler Building, 9 <sup>th</sup> Floor 1300 E. Main Street Richmond, VA 23219 804-371-9733	Clerk of the State Corporation Commission Tyler Building, 1st Floor 1300 E. Main Street Richmond, VA 23219 804-371-9051
<b>WASHINGTON</b>	Department of Financial Institutions Securities Division 150 Israel Rd S.W. Tumwater, WA 98501 360-902-8762	Director, Dept. of Financial Institutions Securities Division 150 Israel Rd S.W. Tumwater, WA 98501
<b>WISCONSIN</b>	Wisconsin Dept. of Financial Institutions Division of Securities 345 W. Washington Avenue, 4th Floor Madison, WI 53703 608-266-8557	Wisconsin Commissioner of Securities Same Address

**EXHIBIT B**  
**FRANCHISE AGREEMENT**

**WATERMILL EXPRESS®**  
**FRANCHISE AGREEMENT**

Franchisee: \_\_\_\_\_  
Date: \_\_\_\_\_  
State: \_\_\_\_\_  
Protected Area: \_\_\_\_\_  
Station Address: \_\_\_\_\_



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### Attachments

Attachment I	Addendum to Franchise Agreement
Attachment II	Owner’s Agreement
Attachment III	Statement of Ownership

## **WATERMILL EXPRESS® FRANCHISE AGREEMENT**

**THIS AGREEMENT** is made effective as of the date set forth on the signature page hereof (“**Effective Date**”), between Watermill Express Franchising, LLC, a Colorado limited liability company (“**WEF**”), and the franchisee named on the signature page of this Agreement (“**Franchisee**”), who on the basis of the following understandings and agreements, agree as follows:

### **1. PURPOSE**

**1.1** WEF has obtained a license for the use and development of certain distinctive processes and methods for the establishment, promotion, development and operation of a drinking water filtration and ice dispensing system (“**Dolifka System**”) and has devised policies and procedures and proprietary techniques, proprietary software which incorporate the Dolifka System, and proprietary methods of doing business (collectively, the “**Licensed Methods**”). WEF franchises the Licensed Methods to franchisees (“**Franchisees**”) of WEF.

**1.2** WEF’s Licensed Methods include, but are not limited to, utilization of a drive-up, self-serve pure drinking water and water and ice vending outlet (“**Station**”), uniform identification of the Station and related business operations utilizing WEF’s proprietary mark “**WATERMILL EXPRESS®**” and other related trademarks and service marks (“**Marks**”) in various promotional and advertising programs and other identification schemes; special production and distribution techniques; uniform standards, specifications and procedures for operations; consistency and uniformity of products and services offered; training and assistance; and procedures for quality control; all of which may be changed, improved and further developed by WEF from time to time;

**1.3** WEF grants the right to others to use the Licensed Methods and the Marks to establish and operate Stations;

**1.4** Franchisee understands the importance and necessity of WEF’s standards of quality, appearance and service related to WEF’s goods, services, Marks and Licensed Methods and the importance of operating the Station in conformity with WEF’s standards and specifications in order to maintain and increase the reputation of the Marks and related goodwill with the public, and the benefits to be derived from being identified with and licensed by WEF and being able to utilize the Licensed Methods and Marks which WEF makes available to its franchisees; and

**1.5** Franchisee desires to establish and operate, and WEF is willing to grant Franchisee the right to establish and operate a Station identified or to be later identified in Attachment I.

### **2. GRANT OF FRANCHISE**

**2.1 Grant of Franchise.** During the term and subject to the provisions of this Agreement, WEF grants to Franchisee and Franchisee accepts from WEF the right to purchase, develop and operate a Station, at a location approved by WEF and described in Section 3 of this Agreement. Franchisee’s business operated at and in connection with the Station shall sometimes be referred to in this Agreement as “**Franchised Business**”) utilizing the Marks and Licensed Methods as they may be changed, improved and further developed from time to time.

**2.2 Scope of Franchise Business Operation.** Franchisee shall at all times comply with Franchisee’s obligations hereunder and shall continuously use best efforts to promote and operate the Franchised Business. Franchisee shall utilize the Marks and Licensed Methods to operate all aspects of

the Franchised Business in accordance with the methods and systems developed and prescribed from time to time by WEF, all of which are a part of the Licensed Methods. Franchisee's Station shall offer all products and services as WEF shall designate. Franchisee shall be restricted from: (1) offering or selling any products and services not previously approved by WEF in writing; (2) operating a Station not specifically authorized by this Agreement, a Rider to this Agreement, or by separate agreement with WEF; (3) transshipping or reshipping products or merchandise intended for retail sale from or through the Station to another Station or location, except with the prior approval of WEF; and (4) producing or distributing the authorized products and services for non-retail sale, off-site sale, sale through the Internet, by mail order, or through catalogs or telemarketing, or from any site other than an approved location for the Station, except as specifically permitted under the terms of this Agreement or otherwise authorized in writing by WEF.

### **3. STATION LOCATION AND PROTECTED TERRITORY**

**3.1 Franchised Location.** Franchisee is granted the right and franchise to own and operate one Station at the address and location which shall be set forth in Attachment I, attached hereto ("**Station Location**").

**3.2 Protected Area.** Subject to WEF's reservation of rights described in Section 3.4 below, WEF shall not establish and operate, or franchise another person or entity to establish and operate, a Station within the geographic area described in Attachment I, attached hereto (the "**Protected Area**").

**3.3 Limitation on Franchise Rights.** The rights that are granted to Franchisee are for the specific address at which the Station is located also referred to as the Station Location, and cannot be transferred to an alternative Station Location, or any other location, without the prior written approval of WEF, which approval may be withheld for any reason, in WEF's sole discretion. Franchisee shall submit all proposed alternative sites to WEF for acceptance, on forms supplied to Franchisee. Franchisee's right to operate the Station does not grant it the exclusive right to any particular customers or market. Franchisee may advertise in and solicit customers from any geographic area, just as other franchisees of WEF may advertise and solicit customers from any geographic area. This Agreement does not grant Franchisee any rights to pursue any of WEF's or its affiliate's other business concepts other than the operation of a Station.

**3.4 National Accounts.** WEF may, from time to time, contract with "**National Accounts**" to establish and operate Stations and related services and products at National Account business locations. A "National Account" means either a single company that conducts its business for its own account or through agents, affiliates, independent contractors or franchisees, in two or more states in the United States, and with eight or more locations, which company has contracted with WEF to establish and operate Stations and related products and services for three or more of its locations from WEF, WEF's affiliates and/or Watermill Express franchisees. If WEF or its affiliates contract with a National Account which has a location in Franchisee's Protected Area, provided Franchisee is in good standing, not in material default under this Agreement and all related exhibits, attachments and addenda and otherwise qualifies to service the National Account under qualification standards as may be established by the National Account or the related contract with the National Account, WEF will contact Franchisee to provide it with a first right to establish and operate the contracted Station on the terms and conditions agreed to by WEF and the National Account. Franchisee must notify WEF of its decision within 15 days after receipt of WEF's notice. If Franchisee desires to establish and operate the contracted Station, Franchisee agrees that it will comply with the terms and conditions of the National Account contract negotiated by WEF. If Franchisee does not elect to establish and operate the contracted Station at the National Account location in its Protected Area, WEF or its affiliates or other representatives will have the right to establish and operate the contracted Station at such location and Franchisee shall have no

rights to such National Account location during the pendency of WEF's contract with the National Account, and shall not be entitled to receive any compensation or proceeds from the provision of services or products to the National Account. Franchisee acknowledges that the terms and conditions negotiated by WEF with the National Account does not infer or guarantee the success or profitability of the Station at the National Account locations.

**3.5 Reservation of Rights.** Franchisee acknowledges that its franchise rights as granted are non-exclusive, and that WEF, for itself and its successors and affiliates, retains the rights, among others, without any compensation to Franchisee:

(a) to own, franchise, license to others to use, or operate Stations at any location outside of the Protected Area regardless of the proximity to Franchisee's Station;

(b) to use the Marks and the Dolifka System to sell any products or services, similar to those which Franchisee will sell, through any alternate channels of distribution outside of the Protected Area. This includes, but is not limited to, other channels of distribution such as television, catalog sales, wholesale to unrelated retail outlets, or over the Internet. WEF exclusively reserves the Internet and Electronic Advertising (defined in Section 11.6) as a channel of distribution for WEF, and Franchisee may not independently market on the Internet or conduct e-commerce without WEF's prior written approval, which may be withheld in WEF's sole discretion;

(c) to offer and sell products under the Marks or any other marks, through retail operations other than Stations, including grocery stores, convenience stores, or other retail locations, restaurants, apartments, military bases, or recreational areas within or outside of the Protected Area;

(d) to develop, market, own, operate or participate in any other business under the Marks or any other trademarks;

(e) to purchase or be purchased by, or merge or combine with, any business, including a business that competes directly with Franchisee's Station, wherever located;

(f) to acquire and convert to the Dolifka System operated by WEF, any businesses offering services and products similar to those offered by Stations, including such businesses operated by competitors or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporately owned, and whether located inside or outside of the Protected Area, provided that in such situations the newly-acquired businesses may not operate under the Marks in the Protected Area;

(g) to implement multi-area marketing programs which may allow WEF or others to solicit or sell to customers anywhere. WEF also reserves the right to issue mandatory policies to coordinate such multi-area marketing programs.

## **4. TERM AND EXPIRATION**

**4.1 Term.** This Agreement and the franchise rights granted hereunder are granted for a period of 10 years from the effective date of this Agreement. This Agreement may be terminated prior to the expiration of the 10 year term in accordance with its terms.

**4.2 Continuation.** If for any reason, Franchisee continues to operate the Station beyond the term of this Agreement or any subsequent renewal period, it shall be deemed to be on a month-to-month basis under the terms of this Agreement, and subject to termination by WEF upon 30 days' notice from

WEF or such greater period as may be required by law. If said hold-over period exceeds 90 days, this Agreement is subject to immediate termination unless applicable law requires a longer period. During any hold-over period and following termination of this Agreement, Franchisee and Franchisee Affiliates, defined in Section 16.2 below, are subject to the terms of Sections 15.4, 16.2 and 16.3 of this Agreement and all other applicable post-termination obligations contained in this Agreement.

**4.3 Rights to Successor Franchise.** Unless WEF declines to offer Franchisee a successor franchise in accordance with Section 4.4 below, at the end of the initial term of this Agreement, Franchisee shall have the option to renew its franchise rights (“**Successor Franchise**”) for an additional 10 year term by acquiring successor franchise rights, if Franchisee:

- (a) Is not in breach of this Agreement during the 180 days before, or following the expiration of, this Agreement;
- (b) Has substantially complied with all the provisions of this Agreement or any other agreement between Franchisee and WEF or persons or entities affiliated with WEF; “substantial compliance” shall mean, at a minimum, that Franchisee has not received any written notification from WEF of a breach hereunder more than three times during the term hereof;
- (c) Renovates, refurbishes, remodels, redecorates and modernizes the Station and Station Location premises, and adds or modifies the products and services offered at the Station, as of or before signing a successor franchise agreement, at Franchisee’s sole expense, so as to reflect the then-current technology, look, image and product and service offerings of Stations as set forth in the Manual;
- (d) At least 30 days prior to the expiration of the term, executes WEF’s then current form of franchise agreement and all other agreements, instruments and documents then customarily used by WEF in the granting of Watermill Express franchises, which agreements may include terms and conditions (including royalty rates and other financial terms) that are materially different from those in this Agreement;
- (e) Has given WEF at least 120 days and not more than 180 days written notice prior to the expiration of the current term of its intention to renew the franchise and license granted by this Agreement;
- (f) Has secured the right to remain in possession of the Station Location premises or other premises acceptable to WEF throughout such renewal term and has sent copies of each lease for the Station Location to WEF for its review and approval;
- (g) Pays to WEF a successor franchise fee (“**Successor Franchise Fee**”) of 25% of WEF’s then-current initial franchise fee, concurrently with signing the successor franchise agreement; and
- (h) Executes a general release, in a form satisfactory to WEF, of any and all claims against WEF and companies affiliated with WEF, and its officers, directors, employees and agents arising out of or relating to this Agreement.

**4.4 Conditions of Refusal to Offer Successor Franchise.** WEF shall not be obligated to offer Franchisee a successor franchise upon the expiration of this Agreement if Franchisee fails to comply with any of the above conditions of renewal. In such event, except in cases of a failure to execute the then current franchise agreement or to pay the Successor Franchise Fee, WEF shall give notice of expiration at least 60 days prior to the expiration of the term (unless a longer notice period is

required by law), and such notice shall set forth the reasons for such refusal to offer a successor franchise. Upon expiration of this Agreement, Franchisee shall comply with the provisions of Section 15.4 below.

## **5. FRANCHISEE'S DEVELOPMENT OBLIGATIONS**

**5.1 Approval of Station Location.** Franchisee shall locate, within 90 days after the date of execution of this Agreement, a Station Location which is suitable for the operation of the Station and have it accepted by WEF. Franchisee shall follow any site selection procedures as may be made available by WEF in locating a proposed site for the Station. Franchisee shall seek WEF's acceptance of any site proposed as a Station Location, by submitting a complete Station Location package, including demographics and other materials requested by WEF, containing all information reasonably required by WEF to assess a proposed Station Location. WEF will not unreasonably withhold acceptance of a proposed Station Location that meets all of WEF's Station Location selection criteria. Franchisee acknowledges and agrees that WEF's acceptance of a Station Location and any information provided by WEF regarding the Station Location does not constitute a representation or warranty of any kind, express or implied, as to the suitability of the site for the Station. If WEF does not accept any reasonable Station Location proposed by Franchisee, WEF will grant Franchisee an additional, reasonable period of time to obtain acceptance of a location, as may be determined in WEF's business judgment.

**5.2 Lease or Purchase of Station Location.** Franchisee shall obtain, through a lease or otherwise, a binding agreement to lease or purchase the approved Station Location within 90 days after approval of the Station Location by WEF. Franchisee shall submit the lease, or, if applicable, the purchase agreement to WEF for approval or disapproval prior to execution. The lease or purchase agreement shall contain terms and conditions providing that:

(a) The term of the lease, including any renewal options, equals or exceeds the scheduled expiration of the term of this Agreement;

(b) WEF has the right to receive a notice of default and the right, but not the obligation, to cure any default by the Franchisee under the lease and take possession of the premises;

(c) WEF has the right to enter the premises to cure defaults under the Agreement if the Franchisee fails to cure within a specified cure period or to protect the Marks and the Licensed Methods;

(d) WEF and Franchisee shall have the right to remove from the Station Location the structure and equipment comprising the Station and all signs bearing any of the Marks of WEF;

(e) WEF, or its designee, has the option to assume the lease and the right following such assumption to assign the lease or sublet the leased premises to another Watermill Express franchisee for all or any part of the lease term without further landlord consent if Franchisee defaults under the lease or this Agreement or if this Agreement terminates or expires; and

(f) The lease shall also contain restrictive use clauses which are acceptable to WEF. Franchisee acknowledges that WEF's approval of a lease or purchase agreement for a Station Location does not constitute a recommendation, endorsement or guarantee by WEF of the suitability or profitability of the location, the lease or purchase agreement. Franchisee shall take all steps necessary to ascertain whether each lease or purchase agreement is acceptable to Franchisee. WEF's review and approval of the lease or purchase agreement shall be for WEF's benefit and Franchisee shall not rely on such review and approval for protection of its own interests under the lease or purchase agreement. Franchisee shall



deliver to WEF a copy of the signed lease or purchase agreement and any addenda pertaining to the Station Location, as well as any amendments or renewal documents, within 15 days of their execution.

**5.3 Development of Station Location.** Franchisee shall, at its own cost, construct, develop and equip the Station Location in conformity with the standards and specifications of WEF. Franchisee's development responsibilities include, but are not limited to, the following:

(a) Franchisee shall acquire or complete all required zoning changes, all required building, utility, health, sanitation and sign permits, and any other required permits;

(b) Franchisee shall purchase all equipment required to operate a Station that meets with WEF's standards and specifications including, but not limited to, the water or water and ice dispensing equipment and the housing comprising the Station, from suppliers designated or otherwise approved by WEF and from approved suppliers as WEF may designate;

(c) Franchisee shall construct, convert, equip, design and decorate and furnish the Station Location in accordance with WEF's plans and specifications and with assistance of contractors, architects and suppliers designated by or otherwise approved by WEF. It shall be Franchisee's responsibility to have prepared all required blueprints and construction plans and specifications to suit the shape and dimensions of the Station Location, which blueprints and plans have been prepared based on the standardized blueprints and plans obtained from WEF. The construction and installation of all required build-out, including but not limited to, concrete work, building construction, installation of protective steel poles, utility hookups, equipment, electronic monitoring systems, fixtures and signs shall be completed in full and strict compliance with WEF's plans, specifications and drawings and all applicable ordinances, building codes and permit requirements; and

(d) Franchisee shall obtain all customary contractors' sworn statements and partial and final waivers of lien for construction, remodeling, decorating and installation services at the Station Location. Franchisee shall deliver to WEF a Certificate of Occupancy, and such other documentation of completion of construction and build-out in accordance with this Section 5.3 as may be reasonably required by WEF prior to the date the Station begins operating. Franchisee shall keep copies of all health department, fire department, building department, building finals, and other similar state and local agency and entity certifications, licenses, and reports of inspections on file and available for review by WEF.

**5.4 Station Opening.** The Opening Date is the first day the Station is open to the public ("Opening Date"). If Franchisee is unable to commence operation of a Station on a timely basis due to circumstances beyond Franchisee's reasonable control (other than Franchisee's inability to commence operation as a result of financial difficulties), WEF may, in WEF's sole discretion, extend the time in which Franchisee has to commence operations for a reasonable period of time, so long as Franchisee has made reasonable and continuing efforts to open on time and Franchisee requests, in writing, an extension of time in which to have its Station open before 180 day period lapses.

**5.5 Office Technology and Computer Software.** Franchisee's office, which may be located in Franchisee's home, shall be equipped with an automated voice mail system, or answering service, with 24/7 answering capability and a computer system which has hardware, software and other office equipment compatible with WEF's communication and data reporting requirements and capable of maintaining Franchisee's bookkeeping records and account records. Franchisee shall join an electronic high speed network connection service to facilitate communication between WEF and Franchisee and among all Watermill Express franchisees. Franchisee must maintain an electronic mail account, as required by WEF. WEF reserves the right to access the information and data regarding the Franchised Business by computer modem or other electronic means at any time in WEF's sole

discretion. While WEF does not currently require Franchisee to obtain a specific brand or type of computer, WEF reserves the right to require Franchisee to purchase, use and upgrade specified computer hardware components and certain proprietary and commercially available software programs that will be set forth in the Manual as defined in Section 6.1 below, from time to time. Franchisee acknowledges that the standards and specifications for equipment and software are a part of the Licensed Methods and therefore WEF reserves the right to ensure that all equipment and software be purchased, leased or otherwise obtained in accordance with standards and specifications as may be established by WEF from time to time and only from suppliers or other sources approved by WEF. WEF reserves the right to independently access Franchisee's operating and sales information through WEF's proprietary software and to access and use electronic information in Franchisee's accounting systems.

**5.6 Other Pre-Opening Obligations.** In addition to the development obligations set forth above, Franchisee shall, at its own expense, do or cause to be done the following: (a) within 180 days after the effective date of this Agreement (i) secure all required financing for the Franchised Business; and (ii) obtain and provide evidence of insurance as described in Section 8.1 below; and (b) prior to commencement of operation of Franchisee's Station, complete WEF's initial training program described below.

## **6. DEVELOPMENT AND OPERATING ASSISTANCE**

**6.1 WEF's Development and Operating Assistance.** WEF shall make available to Franchisee the following assistance and services:

(a) Site Selection Assistance. WEF shall provide assistance to Franchisee related to the approval of the proposed Station Location, although Franchisee acknowledges that WEF shall have no obligation to select or acquire a site for the Station Location on behalf of Franchisee. WEF's assistance will consist of the provision of criteria for a satisfactory site for the Station and a determination of whether a proposed site fulfills the requisite criteria, prior to formal approval of a site selected by Franchisee. WEF may, but is not obligated to, send a representative to Franchisee's proposed Station Location(s) for evaluation of the location. If after one on-site evaluation we determine that it is necessary to conduct additional on-site assessments, or if Franchisee requests and WEF agrees to conduct an additional on-site evaluation, Franchisee may be required to reimburse WEF for its time and expenses. Franchisee acknowledges that, Site selection, acquisition and development shall be sole obligation of Franchisee, WEF is under no obligation to provide additional site selection services other than set forth in this Agreement and that WEF's approval of the Station Location does not infer or guarantee the success or profitability of the Franchised Business at the Station Location in any manner whatsoever.

(b) Plans and Specifications. WEF shall provide Franchisee with one standard prototype set of blueprints for the preparation and layout of the Station, including but not limited to, foundation specifications and drawings and signs and hookup, however, Franchisee shall be solely responsible for modifying such blueprints, at its own expense, to configure the Station to the Station Location and to assure compliance with all applicable building, zoning, health or other laws, codes and ordinances and all applicable private restrictions and requirements. Franchisee must provide copies of all revisions of the blueprints to WEF. Franchisee shall not use any blueprints or plans not specifically approved by WEF for the Station Location.

(c) Equipment and Housing of the Station. WEF shall arrange for the purchase by Franchisee of the water, or water and ice dispensing equipment and the housing comprising the Station. WEF requires that the Station be purchased from an affiliate of WEF, in WEF's sole discretion.



(d) Training. Before Franchisee's first Station opens for business, WEF shall provide, at no cost to Franchisee, an initial training program for up to two individuals. The training will be conducted at one or more locations determined by WEF and portions of the training will be technical training, provided via Webinar, DVD, or other means, followed by on-site training at or around the time of the opening of the Station. Training shall be attended by Franchisee or, if Franchisee is an entity, the person designated by Franchisee to assume primary responsibility for the Franchised Business ("**General Manager**") and the individual in charge of weekly inspections and technical maintenance for the Station ("**Operations Manager**"), which can be the same person. WEF reserves the right to charge Franchisee its then-current published rate for training additional individuals, including replacement managers. Franchisee will be responsible for all transportation, wages and living expenses incurred by its employees who attend the initial training program. At least one individual must successfully complete the initial training program prior to the Opening Date. Initial training is only provided for the opening of the first Station.

(e) On-Going Training. From time to time, WEF may elect to present seminars and continuing training programs for the benefit of its franchisees, held at locations determined by WEF. Attendance at any ongoing seminars or programs may be voluntary, however, WEF reserves the right to require the attendance of Franchisee or General Manager or Operations Manager at any seminar or program, but not more than once during any calendar year. WEF reserves the right to charge a fee for any seminar or program where attendance is not mandatory and, irrespective of whether attendance is mandatory, Franchisee shall be responsible for all transportation, wages and living expenses associated with attendance at any ongoing seminars or programs.

(f) Confidential Manual. WEF shall loan to Franchisee, during the term of this Agreement, a copy of WEF's confidential operations manual and training, marketing, and advertising guidelines. For the purposes of this Agreement, "**Manual**" shall mean and include collectively any written or electronic training, marketing, advertising or operations manual or manuals and all books, pamphlets, memoranda, bulletins, electronic mail messages, directives, instructions, videotapes, cassettes and other materials as may be provided by WEF to Franchisee from time to time, setting out the standards, methods, procedures, marketing techniques and specifications of the Licensed Methods. Franchisee shall use the Marks and Licensed Methods only as specified in the Manual. The Manual is the sole property of WEF and may be used by Franchisee only during the term of this Agreement. Franchisee shall not duplicate the Manual nor disclose its contents to persons other than its employees or officers who have signed a confidentiality and non-competition agreement in a form approved by WEF. WEF has the right in its sole discretion to add to, update or otherwise modify the Manual from time to time and Franchisee shall update its copy of the Manual as instructed by WEF and promptly conform Franchised Business to the updated provisions within 30 days after receipt thereof. In the event of a dispute relative to the contents of the Manual, the master copy maintained by WEF at its principal office shall be controlling.

(g) Operating Advice and Guidance. WEF shall provide Franchisee with such guidance, as is from time to time deemed appropriate by WEF, with respect to: (i) methods and operating procedures; (ii) types of products or services authorized for sale by Watermill Express franchises; (iii) Franchisee's formulation and implementation of advertising and promotional programs; (iv) advertising and promotional materials as may be developed by WEF, the cost of which may be passed on to Franchisee or charged to the Brand Building Fund (defined in Section 11.5 below), at WEF's option; and (v) the establishment of administrative, accounting, bookkeeping, financial reporting, control and general operating procedures for the Franchised Business. Any such guidance shall be made available to Franchisee through the Manual, electronic mail messages, facsimile materials, or through bulletins, other written materials, telephone consultations, or during WEF's annual in-person consultation with Franchisee.

(h) National Account Referrals. As and when such opportunities arise, WEF shall refer National Accounts with locations in Franchisee's Protected Area to Franchisee and offer Franchisee a first right of refusal to establish and operate the Station at such National Account locations so long as Franchisee is at that time in good standing under, and not in material default of, the Agreement, and otherwise qualifies to service the National Account pursuant to qualification standards as may be established by the National Account or the related contract with the National Account, as further described in Section 3.4 above. Franchisee must notify WEF of its decision within 15 days after WEF offers Franchisee an opportunity to service a National Account with a location in its Protected Area.

(i) Periodic Audits. At WEF's sole discretion, the Franchised Business shall be evaluated by representatives of WEF and a detailed written report of the results of such evaluation shall be provided to Franchisee along with recommendations based on the results. Franchisee may be required to reimburse WEF for its costs if the evaluation reveals certain deficiencies described in Section 9.5 below.

(j) Proprietary Software. Franchisee's Station shall be equipped with electronic monitoring devices, at Franchisee's sole expense, that allow WEF and Franchisee to track the operation and sales of the Station using proprietary software developed by WEF. From the information obtained from this software, WEF shall make available to Franchisee such reports regarding operational information of Franchisee's Station as WEF may deem appropriate. Based on information from these reports, Franchisee shall review and make any adjustments to the Station, as set forth in the Operations Manual. Franchisee shall not copy, reproduce, modify, translate, reverse engineer, decompile or disassemble any portion of the company's software, or of any other software or system that WEF otherwise provides to Franchisee, without WEF's prior written consent, which may be withheld in its sole and absolute discretion.

(k) Customer Access to 1-800 Customer Call Center. WEF shall provide Franchisee's customers with access, through a toll-free number, to WEF's "1-800 Customer Call Center" to address customer questions and concerns.

(l) Customer Access to WEF. WEF shall provide Franchisee's customers with access to the Watermill Express website and provide such customers with the ability to communicate with WEF.

**6.2 WEF's Additional Assistance.** Although not obligated to do so, upon the reasonable request of Franchisee, WEF may make its employees or designated agents available to Franchisee for advice and assistance in connection with the ongoing operation of the Station. In the event that Franchisee requests such additional assistance and WEF agrees to provide the same, WEF reserves the right to charge Franchisee for all reasonable travel, lodging and other identifiable expenses associated with such assistance, plus a fee based on the time spent by each employee on behalf of Franchisee, which fee will be charged in accordance with the then current published rates being charged by WEF for assistance.

## **7. FRANCHISEE'S OPERATIONAL COVENANTS**

**7.1 Business Operations.** Franchisee acknowledges that it is solely responsible for the successful operation of the Franchised Business and that the continued successful operation thereof is, in part, dependent upon Franchisee's compliance with this Agreement and the Manual. In addition to all other obligations contained in this Agreement and in the Manual, Franchisee shall comply with the following operational obligations.

(a) Use of Station Location. Franchisee agrees to (i) use the Station Location solely for the operation of the Station; (ii) keep the Station open and in normal operation for such hours and days as WEF may from time to time specify in the Manual; and (iii) refrain from using or permitting the use of the Station Location for any other purpose or activity at any time without first obtaining the written consent of WEF.

(b) Authorized Products and Services. Franchisee agrees that in connection with Franchised Business, and the related Station operations authorized hereunder, Franchisee shall not, without prior written approval by WEF, offer any products or services that are not authorized by WEF and discontinue selling and offering for sale any products or services which WEF may, in its discretion, disapprove in writing at any time. Franchisee shall offer all types of products and services as from time to time may be prescribed by WEF. Franchisee shall refrain from operating or engaging in any other type of business or profession, from or through the Station not authorized by WEF, including, without limitation, filling “**wholesale orders**,” defined below, or any off-premises, delivery, Internet, catalog, telemarketing, mail order or other direct marketing sales, without the prior written consent of WEF. “**Wholesale Orders**” are defined as those orders or sales where the principal purpose of the purchase is for resale, not use, or any sale other than those sold over the counter at a price other than that price charged to the general public; provided, however, that volume discounted sales made on the premises of a Station Location to a single purchaser, not for resale, shall not be considered a “**wholesale order**.” All products, services, brands, models and/or types of equipment, parts, supplies and products used or offered for sale by Franchisee must meet WEF’s minimum standards and specifications for design, function, performance, serviceability and warranties. Franchisee must use only those products, materials, containers, equipment, labels, supplies, forms, cleaning and sanitation materials and other supplies that conform to the specifications and quality standards established by WEF from time to time and that are purchased from suppliers approved by WEF from time to time.

(c) Compliance with Manual. Franchisee shall maintain and operate the Station in compliance with this Agreement, and the standards and specifications contained in the Manual as the same may be modified from time to time by WEF, in WEF’s discretion. Franchisee acknowledges that it shall be required to comply with the Manual as an essential aspect of its obligations under this Agreement and failure by Franchisee to substantially comply with the Manual may be considered by WEF to be a breach of this Agreement. Franchisee shall not duplicate the Manual in any way or disclose its contents to persons other than those employees of Franchisee who need to know such contents for the operation of the Franchised Business and who have first signed a nondisclosure and noncompetition agreement in a form approved by WEF.

(d) Good Faith Operations/Compliance with Agreement. Franchisee shall operate the Station in compliance with the terms of this Agreement and in a good faith manner consistent with normal business practices for a type of business to be operated hereunder. Franchisee acknowledges and agrees that Franchisee alone will exercise day-to-day control over all operations, activities and elements of the Franchised Business, including Franchisee’s employees, and that under no circumstance shall WEF do so or be deemed to do so. Franchisee further acknowledges and agrees that the various requirements, restrictions, prohibitions, specifications and procedures of System which Franchisee is required to comply with under this Agreement, whether set forth in the Manual or otherwise, do not directly or indirectly constitute, suggest, infer or imply that WEF controls any aspect or element of the day-to-day operations of the Franchised Business, which Franchisee alone controls, but only constitute standards Franchisee must adhere to when exercising Franchisee’s control of the day-to-day operations of the Franchised Business.

(e) Reporting System. Franchisee shall promptly review any reports generated by the proprietary reporting system and made available by WEF for information and follow-up by

Franchisee, and shall make any adjustments as shall be deemed required or recommended by such reports or the Manual.

**7.2 Compliance with Laws.** Franchisee shall secure and maintain in force all required licenses, permits and certificates relating to the operation of the Station and Franchised Business and shall operate the Station and Franchised Business in full compliance with all applicable laws, ordinances and regulations, including, without limitation, all government regulations relating to health and safety, water quality, occupational hazards and health, workmen's compensation insurance, unemployment insurance and withholding and payment of federal and state income taxes, social security taxes and sales and use taxes. Franchisee shall (i) furnish to WEF, within five days after receipt thereof, a copy of any notice, warning, inspection report, violation or citation which indicates Franchisee's failure to meet local health or safety standards in the operation of the Station or the Franchised Business, and (ii) notify WEF in writing within five days of the commencement of any action, suit or proceeding, and of the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality, which may adversely affect the operation or financial condition of Franchisee, the Station or Franchised Business. Franchisee shall be solely responsible for any penalties or fines assessed for failure to abide by such laws and regulations.

**7.3 Maintenance of Station.** Franchisee shall maintain the Station at the highest level of sanitation, repair and condition, and in connection therewith shall make such additions, alterations, repairs and replacements thereto as may be required for that purpose, including, without limitation, adjustments to insure adherence to minimum water quality standards and such periodic repairs to or repainting or replacement of obsolete equipment, supplies and signs as WEF may reasonably direct. Franchisee shall not make any other additions, alterations, repairs, or replacements to the Station without WEF's prior written consent, which may be withheld in WEF's sole discretion. If Franchisee fails to maintain the Station in the manner prescribed by WEF, WEF, or its designee may, upon three days prior written notice to Franchisee, perform such maintenance, the cost of which shall be paid by Franchisee. Franchisee shall check the Station as often as required in accordance with the Manual, and shall prominently display on the Station for the benefit of customers WEF's toll free telephone number and such other information or notices as WEF or regulatory agencies may require. No other telephone numbers or addresses may be displayed on the Station without the prior written approval of WEF.

**7.4 Business Practice Standards.** Franchisee shall in all dealings with customers, suppliers, WEF and its affiliates, government agencies, and the public, adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. Franchisee agrees to refrain from any business or advertising practice which may be injurious to the business of WEF and the goodwill associated with WEF's Marks and other Watermill Express businesses.

**7.5 Payment of Obligations.** Franchisee shall pay on a timely basis all amounts due and owing to WEF pursuant to any separate agreements between Franchisee and WEF and all amounts due and owing by Franchisee to all third parties, including affiliates of WEF, national suppliers and taxing authorities, with whom Franchisee does business at the Station Location or through the Franchised Business. In connection with any amounts due and owing by Franchisee to third parties, Franchisee expressly acknowledges that a default by Franchisee with respect to such indebtedness may be considered a default hereunder and WEF may avail itself of all remedies provided for herein in the event of default.

**7.6 Other Agreements.** Franchisee shall comply with all other agreements with WEF, WEF's affiliates, and with third parties related to the Franchised Business including, in particular, all provisions of any premises lease, or National Account agreement for Station.

**7.7 Employees.** Franchisee shall be exclusively responsible for the conduct and control of its employees and employment practices, including hiring, firing, training, and compensation of its employees. Franchisee shall not solicit, employ, divert or attempt to employ any employee of WEF, WEF's affiliates, or other franchisees of WEF. Franchisee shall be fully responsible for all of its employees' compliance with the operational standards that are part of the Licensed Methods. Franchisee and all employees of Franchisee shall present a professional appearance, as described in the Manual, and shall render competent and courteous service to customers of the Station while working at the Station Locations or representing the Franchised Business in the community. Nothing in this Agreement shall be deemed to make Franchisee's employees, representatives or agents (i) subject to the control of WEF, or (ii) employees of WEF. All employees or independent contractors hired by or working for Franchisee will be Franchisee's employees or independent contractors alone and will not, for any purpose, be deemed our employees or subject to WEF's control, most particularly with respect to any mandated or other insurance coverage, tax or contributions, or requirements pertaining to withholdings, levied or fixed by any city, state or federal governmental agency. Franchisee and WEF will each file their own tax, regulatory and payroll reports, and be responsible for all employee benefits and workers compensation payments with respect to their respective employees and operations. Franchisee will save and indemnify WEF from any liability of any nature whatsoever by virtue thereof. WEF will not have the power to hire or fire Franchisee's employees. Franchisee expressly agrees, and will never contend otherwise, that WEF's authority under this Agreement to certify certain of Franchisee's employees or independent contractors for qualification to perform certain functions for the Franchised Business does not directly or indirectly vest in WEF the power to hire, fire or control any such employee or independent contractor. Franchisee alone is solely responsible for all hiring and employment decisions and functions relating to the Franchised Business, including, without limitation, those related to hiring, firing, training, establishing remuneration, compliance with wage and hour requirements, personnel policies, benefits, recordkeeping, supervision, and discipline of employees, regardless of whether Franchisee has received advice from WEF on these subjects or not. Franchisee agrees that any direction Franchisee receives from WEF regarding employment policies should be considered as examples, that Franchisee alone is responsible for establishing and implementing its own policies, and that Franchisee understands that Franchisee should do so in consultation with local legal counsel well-versed in employment law.

**7.8 Remodeling and Upgrading.** At WEF's reasonable request, which shall not be more often than once every five (5) years from the date the Station opens for business, unless WEF deems it to be necessary more often in order to conform with applicable laws, codes, or other regulations, or for health and safety reasons, Franchisee shall renovate, refurbish, remodel, redecorate and, if necessary, re-equip the Station at its expense to conform to the equipment, design, trade dress, color schemes and presentation of the Marks consistent with the image and standards then in effect for Stations. Franchisee acknowledges and agrees that WEF may require Franchisee to replace an existing Station with the model and format of Station that WEF is offering to Franchisees at the time Franchisee is required to make upgrades. Franchisee must immediately reimburse WEF for any performing any act or making any payment that Franchisee is required to make to upgrade or remodel the Station.

**7.9 Inspection.** Franchisee shall permit and grant the right to WEF and its agents to enter upon the Station Location at any time for the purpose of conducting inspections; shall cooperate with WEF's representatives in such inspections by rendering such assistance as they may reasonably request; and, upon notice from WEF or its agents and without limiting WEF's other rights under this Agreement, shall take such steps as may be necessary to correct immediately any deficiencies detected during any such inspection, including, without limitation, immediately desisting from the further use of any equipment, advertising materials, products, supplies or other items that do not conform to WEF's then current specifications, standards or requirements. WEF or its representatives shall conduct periodic audits of the Station and the Franchised Business as set forth in Section 6.1(i) above.



**7.10 Management of Station Operations and Conflicting and Competing Interests.** The Station's operations shall be under the direct supervision of Franchisee, or Franchisee's General Manager, who has successfully completed WEF's initial training program. The General Manager must successfully complete WEF's initial training program, or be trained by other persons who have successfully completed WEF's initial training program, in WEF's sole discretion. Franchisee shall keep WEF informed at all times of the identity of the General Manager and shall promptly notify WEF of any new or replacement General Managers. Franchisee agrees that it shall at all times faithfully, honestly and diligently perform its obligations hereunder, that it shall continuously use best efforts to promote and conduct the Franchised Business and it shall not engage in any other business or activity that may conflict with its obligations hereunder. Franchisee shall not divert elsewhere any trade or business that would ordinarily be transacted by Franchisee from the Station or through the Franchised Business.

**7.11 Ownership of Franchised Business.** Franchisee shall at all times during the term of this Agreement own and control the Franchised Business authorized hereunder. Upon request of WEF, Franchisee shall promptly provide satisfactory proof of such ownership to WEF. Franchisee represents that the Statement of Ownership, attached hereto as Attachment III and by this reference incorporated herein, is true, complete, accurate and not misleading, and in accordance with the information contained in the Statement of Ownership, the controlling ownership of the Franchised Business is held by Franchisee. Franchisee shall promptly provide WEF with a written notification if the information contained in the Statement of Ownership changes at any time during the term of this Agreement and shall comply with the applicable transfer provisions contained in Section 14 herein. If Franchisee is a corporation, or subsequent to execution hereof, Franchisee assigns this Agreement to a corporation, all shareholders owning any of Franchisee's outstanding shares and their spouses (or if Franchisee is a partnership, or subsequent to execution hereof, Franchisee assigns this Agreement to a partnership, all general partners and their spouses, or if Franchisee is a limited liability company, or subsequent to execution hereof Franchisee assigns this Agreement to a limited liability company, all members and managers and their spouses) hereby personally and unconditionally guarantee without notice, demand or presentment, the payment of all of Franchisee's monetary obligations under this Agreement and any other agreement between Franchisee and WEF and/or WEF's affiliates, as if each were an original party to this or any other agreement in his or her individual capacity. All such personal guarantors further agree to be bound by the restrictions upon Franchisee's activities upon transfer, termination or expiration and nonrenewal of this Agreement as if each were an original party to this Agreement in his or her individual capacity. Such persons must execute WEF's prescribed form of Owner's Agreement attached hereto as Attachment II contemporaneously with the execution of this Agreement.

**7.12 Corporate, Partnership or Other Legal Entity Franchisees.** A Franchisee that is a corporation, partnership, limited liability company or other legal entity other than an individual shall comply, except as otherwise approved in writing by WEF, with the following requirements throughout the term of this Agreement:

(a) Franchisee shall be required on an ongoing basis to furnish WEF with its most current form of articles of incorporation or organization, bylaws, partnership agreement, operating agreement, other organizational and governing documents, certificate of good standing from the state in which Franchisee is formed or incorporated, and any other documents WEF may reasonably request, and any amendments thereto.

(b) Franchisee's entity, if any, for conducting the franchised business shall confine its activities exclusively to conducting the Franchised Business, and any organizational and governing documents shall at all times provide that its activities are confined exclusively to conducting the Franchised Business, unless Franchisee obtains WEF's prior written consent, which may be withheld for any reason.

(c) Franchisee shall maintain stop transfer instructions against transfer on its records of any equity securities or other ownership interests. All securities or other evidence of ownership interest shall legibly and conspicuously contain the following legend: **“The transfer of this certificate and the ownership interests represented thereby is subject to the terms and conditions of a Franchise Agreement with Watermill Express Franchising, LLC dated (Effective Date). Reference is made to the provisions of said Franchise Agreement and to the organizational and governing documents of this Corporation (partnership) (limited liability company) (trust) (other entity).”**

## **8. INSURANCE AND INDEMNITY**

**8.1 Insurance Policies.** Franchisee shall purchase and at all times maintain in full force and effect insurance policies, in such amounts and on such terms as prescribed by the Manual, issued by an insurance company acceptable to WEF at all times while this Agreement is in effect. Insurance coverage must include, but is not limited to, comprehensive general liability, combined single limit, automobile, bodily injury and all-risk property damage insurance and all other occurrences against claims of any person, employee, customer, agent or otherwise in an amount per occurrence of not less than such amount set forth in the Manual and adjusted by WEF periodically in WEF's sole discretion, unemployment and workers compensation insurance and any other additional insurance required by the terms of any lease or lender for the Franchised Business. Insurance policies must insure Franchisee, WEF, WEF's affiliates, and WEF's and WEF affiliates' respective officers, directors, shareholders, managers, members and all other parties designated by WEF, as additional named insureds against any liability which may accrue against them because of the ownership, maintenance or operation by Franchisee of the Franchised Business. All public liability and property damage policies shall contain a provision that WEF, although additional named insured, shall nevertheless be entitled to recover under such policies on any loss occasioned by WEF or its shareholders, members, directors, managers, employees or agents. The policies must also stipulate that WEF shall receive a 30 day prior written notice of cancellation and must contain endorsements by the insurance companies waiving all rights of subrogation against WEF. Franchisee shall also procure and pay for all other insurance required by state or federal law. WEF reserves the right to modify minimum insurance requirements or the types of coverage required at any time in its sole discretion by updating the Operations Manual.

**8.2 Certificates of Insurance.** Original or duplicate copies of all insurance policies, certificates of insurance, or other proof of insurance (collectively, “Certificates of Insurance”) acceptable to WEF, including original endorsements affecting the coverage required by this Section, shall be furnished to WEF together with proof of payment within 10 days of issuance thereof. Franchisee shall also furnish WEF with certificates and endorsements evidencing such insurance coverage within 10 days after each of the following events: (i) at all policy renewal periods, no less often than annually; and (ii) at all instances of any change to, addition to, or replacement of any insurance. The certificates and endorsements for each insurance policy are to be signed by a person authorized by that insurer to bind coverage on its behalf. All certificates and endorsements are subject to approval by WEF. WEF reserves the right to require complete, certified copies of all required insurance policies at any time in WEF's sole discretion.

**8.3 Failure to Obtain or Maintain Insurance.** In the event Franchisee fails to obtain the required insurance and to keep the same in full force and effect, WEF may, but shall not be obligated to, purchase insurance on Franchisee's behalf from an insurance carrier of WEF's choice, and Franchisee shall reimburse WEF for the full cost of such insurance within five days of the date WEF delivers an invoice detailing such costs and expenses to Franchisee. Notwithstanding the foregoing, failure of Franchisee to obtain insurance constitutes a material breach of this Agreement entitling WEF to terminate this Agreement or exercise any or a combination of the other default remedies set forth in Section 15 of this Agreement. Franchisee shall also procure and pay for all other insurance required by

state or federal law. WEF reserves the right to modify minimum insurance requirements or the types of coverage required at any time in its sole discretion by updating the Operations Manual.

**8.4 Indemnification.** Franchisee shall indemnify, defend and hold harmless WEF, its subsidiaries, parents and affiliates, and their respective shareholders, equity owners, partners, directors, officers, managers, members, employees, agents, representatives, successors and assigns (“**Indemnified Parties**”), against, and to reimburse them for all claims, obligations and damages described in this Section 8.4, any and all third party obligations described in Section 17.2 below and any and all claims and liabilities directly or indirectly arising out of the operation of the Franchised Business, including the Station, or arising out of the use of the Marks and Licensed Methods in any manner not in accordance with this Agreement. For purposes of this indemnification, claims shall mean and include all obligations, actual and consequential damages and costs reasonably incurred in the defense of any claim against the Indemnified Parties, including, without limitation, reasonable accountants’ and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses. WEF shall have the right to defend any such claim against it at Franchisee’s sole cost and expense. This indemnity shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

## **9. REPORTS, RECORDS AND FINANCIAL STATEMENTS**

**9.1 Franchisee Reports.** Franchisee shall establish and maintain, at its own expense, bookkeeping, accounting and data processing systems that conform to the specifications that WEF may prescribe from time to time. WEF shall have the right of access to all data with respect to each Station. Franchisee shall supply to WEF such types of reports in a manner and form as WEF may from time to time reasonably require, including:

(a) by the 10th of each month a report on the Station’s Gross Sales for the previous month;

(b) quarterly financial statements, prepared in accordance with Generally Accepted Accounting Principles (“**GAAP**”), consistently applied, using the forms and chart of accounts as prescribed by WEF, which shall include a profit and loss statement and balance sheet for the Franchised Business, mailed or otherwise forwarded to WEF by no later than 45 days following the end of the quarter, based on operating results of the previous month, which shall be submitted in a form approved by WEF;

(c) within 30 days after the end of each calendar quarter, a report on Franchisee’s local advertising expenditures, as further described in Section 11.3 of this Agreement and in WEF’s recommended format;

(d) within 45 days after the end of Franchisee’s fiscal year, a balance sheet and profit and loss statement prepared in accordance with GAAP, consistently applied, for the Franchised Business for such year;

(e) within 10 days after such returns are filed, exact copies of federal and state income and any other tax returns and such other forms, records, books and other information as WEF may periodically require;

(f) any other data, information and supporting records reasonably requested by WEF from time to time; and



(g) within 5 days after receipt, any regulatory agency reports related to the Station and the Franchised Business.

**9.2 Financial Records Use and Access.** WEF reserves the right to disclose data derived from all financial and accounting reports received from Franchisee, without identifying Franchisee, except to the extent identification of Franchisee is required by law. Franchisee consents to WEF obtaining financial information regarding the Station and the operations from third parties with whom Franchisee does business, as and when deemed necessary by WEF.

**9.3 Verification.** Each report and financial statement to be submitted to WEF pursuant to this Agreement shall be signed manually or electronically, as the case may be, and verified by Franchisee.

**9.4 Books and Records.** Franchisee shall maintain all books and records for its Station and the Franchised Business in a manner as reasonably prescribed by WEF and shall preserve these records for at least five years after the fiscal year to which they relate.

**9.5 Audit of Books and Records.** Franchisee shall permit WEF to inspect and audit the books and records of the Franchised Business at any reasonable time, at WEF's expense. If any audit discloses a deficiency in amounts for payments owed to WEF pursuant to this Agreement, then such amounts shall become immediately payable to WEF by Franchisee, with interest from the date such payments were due at the lesser of 1.5% per month or the maximum rate allowed by law. If Franchisee (1) fails to furnish required reports or supporting records on a timely basis for two or more consecutive reporting periods; (2) fails to have the books and records available for an audit after receiving reasonable, advance notice from WEF; (3) otherwise fails to cooperate with WEF's requested audit; or (4) understates its Gross Sales for the period of any audit by greater than 2%, then Franchisee shall reimburse WEF for the cost of such audit or inspection, including, without limitation, the charges of attorneys and any independent accountants and the travel expenses, room and board and compensation of WEF's employees.

**9.6 Access of Data and Records.** Franchisee acknowledges and agrees that it must provide WEF with reasonable access to all of Franchisee's business records ("**Business Records**") with respect to customers and other service professionals of, and/or related to, the Franchised Business including, without limitation, all databases (whether in print, electronic or other form), including all names, addresses, telephone numbers, e-mail addresses, customer purchase records, and all other records contained in the database, and all other Business Records created and maintained by Franchisee. Franchisee further acknowledges and agrees that, at all times during and after the termination, expiration or cancellation of this Agreement, WEF may access such Business Records, and may utilize, transfer, or analyze such Business Records as WEF determines in WEF's sole discretion, to be in the best interest of WEF and the Dolifka System.

## **10. FEES, ROYALTIES AND LATE FEES**

**10.1 Equipment Fee.** Franchisee shall pay to our approved supplier an equipment fee ("**Equipment Fee**") for use of the proprietary equipment which produces the pure drinking water, or water and ice, and the distinctive housing which comprises the Station. The Equipment Fee is set forth in Attachment I. The Equipment Fee is payable in two equal installments. The first installment is due upon execution of this Agreement and the second installment is due upon delivery of the equipment. Franchisee must also pay for the shipping of the equipment and sales tax.

**10.2 Royalty, Rate and Payments.** Franchisee shall pay to WEF a royalty (“**Royalty**”) equal to a scheduled percentage of the total amount of its Gross Sales (defined in Section 10.3 below), generated from or through the Franchised Business no later than the 10th day of every month of the term of this Agreement, or such other date, or with greater frequency, as WEF may reasonably direct. The royalty schedule is as follows: zero percent (0%) from Opening Date and the twelve months following the Opening Date; three percent (3%) beginning the thirteenth month following the Opening Date; and seven percent (7%) beginning the twenty-fifth month and continuing thereafter. Royalty payments shall be made every month and sent to WEF via check, credit card, electronic funds transfer (“**EFT**”) or whatever method WEF designates from time to time on the days of the month WEF shall designate from time to time (“**Due Date**”) based on Gross Sales for the immediately preceding calendar month. WEF reserves the right to require that Royalties are paid as often as weekly upon prior written notice to Franchisee. No later than 30 days prior to the opening of the Station, Franchisee shall execute an Authorization Agreement for Preauthorized Payments in the form attached to the FDD (defined below) as Exhibit H to allow the electronic transfer of funds from Franchisee’s bank account to WEF’s bank account. No later than the Due Date, Franchisee shall report to WEF by electronic means or in written form, as may be reasonably directed by WEF, with such information and pursuant to such standard transmittal procedures regarding Franchisee’s Gross Sales and such additional information as may be requested by WEF. WEF shall have the right to verify such Royalty payments from time to time as it deems necessary, in any reasonable manner.

**10.3 Gross Sales.** “**Gross Sales**” shall mean and include the aggregate amount of all sales of products, services or merchandise (including the bulk sale of tokens for the purchase of water or ice) of every kind or nature sold from, at or in connection with or arising out of the operation or conduct of business at the Station and through the Franchised Business whether for cash or credit, and any revenues from sales of merchandise such as bottles, containers, dispensers, and all other merchandise and similar promotional items, less returns for which refunds are made, provided that the refund shall not exceed the sales price, but excluding all: (i) federal, state or municipal sales or service taxes collected from customers and paid to the appropriate taxing authority; (ii) discounts, (iii) promotional tokens given to customers to encourage free sampling of water from Franchisee’s Station ; and (iv) other exclusions as may be authorized in writing by WEF.

**10.4 Application of Payments.** Notwithstanding any designation by Franchisee, WEF shall have sole discretion to apply any payments by Franchisee, and any credits received by WEF on Franchisee’s behalf from third party vendors, to any of Franchisee’s past due indebtedness to WEF for Royalties, Brand Building Fees (defined in Section 11.5 below), purchases from WEF or its affiliates, interest or any other indebtedness. Franchisee acknowledges that WEF has the right to set-off any amounts Franchisee may owe to WEF against any amounts WEF might owe to Franchisee.

**10.5 Late Fees and Interest.** In the event that Franchisee fails to have sufficient funds in Franchisee’s account or otherwise fails to pay any fees or any other amounts owed to WEF when due, Franchisee shall, in addition to any other amounts due, owe a \$100 late fee to be automatically assessed and debited or paid along with the late debit or payment. In addition, WEF shall have the right to charge interest on any payments made after the date due at the highest applicable legal rate for open account business credit, not to exceed 1.5% per month. Franchisee acknowledges that this Section shall not constitute WEF’s or its affiliates’ agreement to accept such payments after they are due or a commitment to extend credit to or otherwise finance operation of the Station. In no event shall Franchisee be required to pay a late payment and/or interest at a rate greater than the maximum interest rate permitted by applicable law.

**10.6 Station Support Fee.** Franchisee must pay WEF a fee for technology related services and technical support for the operation and maintenance of the Station (the “**Station Support Fee**”) in an

amount of \$20 per month per Station. WEF reserves the right to increase the Station Support Fee up to \$50 per month per Station upon 30 days' written notice.

## 11. ADVERTISING

**11.1 Approval of Advertising.** Franchisee shall obtain WEF's prior approval of all advertising for the Station by submitting it to WEF at least 14 days prior to the advertising being disseminated, published or broadcasted, including Yellow Pages, other telephone related advertising and Internet advertising. Franchisee acknowledges that advertising and promoting the Station in accordance with WEF's standards and specifications is an essential aspect of the Licensed Methods, and Franchisee agrees to comply with all advertising standards and specifications. Franchisee shall display all required promotional materials, signs, point of purchase displays and other marketing materials at its Station and in the manner prescribed by WEF. A fee of Five Hundred Dollars (\$500), payable to the Brand Building Fund (if established, or to WEF if not established) will be assessed if unauthorized advertising is used. Franchisee must participate in promotions and public relations campaigns, including required contributions to charitable events, which WEF may institute from time to time for all Stations, or for all Stations within a particular area. Franchisee must also participate in customer service, community service programs, complimentary product promotions, customer loyalty, gift card and other promotional programs, such as customer coupon campaigns.

**11.2 Grand Opening Promotion.** Franchisee shall conduct a grand opening advertising and promotional program for the Station at or around the time that the Station opens to the public. All of Franchisee's grand opening advertising and promotional materials shall be subject to WEF's prior written approval.

**11.3 Local Advertising.** WEF requires Franchisees to spend, at a minimum, an average of 1% of the total amount of its quarterly Gross Sales ("**Local Advertising Requirement**") on local marketing activities to create public awareness and encourage use of Franchisee's Station. Franchisee will submit to WEF an accounting of the amounts spent on advertising within 30 days following the end of each calendar quarter. If Franchisee's lease requires it to advertise locally, WEF may, in its sole discretion, count such expenditures toward Franchisee's Local Advertising Requirement. Franchisee shall obtain WEF's prior written approval of all written advertising and promotional materials before publication. Notwithstanding the foregoing, WEF shall count Franchisee's contribution toward any Regional Advertising Cooperative (as defined below in Section 11.4) toward its Local Advertising requirement described in this Section 11.3.

**11.4 Regional Advertising Cooperatives.** WEF reserves the right, upon 30 days' prior written notice to Franchisee, to create a regional advertising association ("**Regional Advertising Cooperatives**") for the benefit of franchisees located within a particular geographic area. The Regional Advertising Cooperatives will be managed by franchisees appointed by WEF. The Regional Advertising Cooperatives will be managed in accordance with WEF's standards and specifications as set forth in the Manual.

(a) WEF has the right, in its sole discretion, to determine the composition of all geographic territories and market areas for the implementation of Regional Advertising Cooperatives. If a Regional Advertising Cooperative is established for the area where Franchisee is located, Franchisee will be required to participate in the Regional Advertising Cooperative for the purpose of selecting and participating in regional marketing and promotion programs for Station. Franchisee will be required to remain a member of and abide by the decisions of the majority of the members of the Regional Advertising Cooperative regarding expenditures, assessments and dues of the Regional Advertising Cooperative, to the extent that they are approved by WEF. The rules and regulations of the Regional

Advertising Cooperative, including the amount of contributions to be made by its members and how contributions are to be spent, will be established in bylaws of the Regional Advertising Cooperative, which shall be approved by WEF.

(b) All franchisees who own Stations located in a geographical area where a Regional Advertising Cooperative has been established will be required to contribute to the Regional Advertising Cooperative on an equal basis up to 1% of Gross Sales (the total amount of Franchisee's Local Advertising Requirement). If WEF or any affiliated company of WEF operates Stations located in a geographical area where a Regional Advertising Cooperative has been established, WEF or the affiliate contribute to the Regional Advertising Cooperative on an equal basis.

(c) WEF may, in its sole discretion, direct that franchisees and Stations within a particular geographic area comprising the Regional Advertising Cooperative allocate all or a portion of the Local Advertising Requirement to the Regional Advertising Cooperative, for a specific advertising program or for an indefinite period of time.

(d) The failure of Franchisee to participate in the Regional Advertising Cooperative or pay any dues required by the Regional Advertising Cooperative, may, at the option of WEF, be deemed to be a breach of this Agreement.

(e) WEF has the sole right to form, change, or disband any Regional Advertising Cooperative upon 30 days' written notice to Franchisee, or once disbanded, to reinstate a Regional Advertising Cooperative upon any terms and conditions determined by WEF in its sole discretion upon 30 days' prior written notice to Franchisee.

**11.5 Brand Building Fees.** WEF reserves the right, upon 30 days' prior written notice to Franchisee, to create a national advertising program. If a national advertising program is created, Franchisee shall contribute to a marketing fund ("**Brand Building Fund**") established by WEF a fee of up to 2% of the total amount of Franchisee's Gross Sales ("**Brand Building Fee**"). The Brand Building Fee shall be paid to WEF in addition to the Royalty and in addition to any amounts spent on local or regional advertising, and the following terms and conditions shall apply:

(a) The Brand Building Fee shall be payable concurrently with, and in the same manner as, the payment of the Royalty as described in Section 10.2 above.

(b) WEF may change the amount of the Brand Building Fee (but not to exceed 2% of Franchisee's Gross Sales) by providing Franchisee with at least 30 days' prior written notice.

(c) All franchisees of WEF will be required to pay into the Brand Building Fund on an equal basis based on each franchisee's Gross Sales. If WEF or any affiliate of WEF owns Stations, WEF or the affiliate may, but is not required to, pay into the Marketing Fund on an equal basis as franchisees.

(d) Upon the written request of Franchisee, WEF will make available to Franchisee, no later than 120 days after the end of each fiscal year, an unaudited financial statement that indicates how the Brand Building Fund has been spent.

(e) WEF shall direct all advertising and marketing programs financed by the Brand Building Fund, with sole discretion over the creative concepts, materials and endorsements used therein, market allocation and media placement, and the administration thereof. Franchisee agrees that the Brand Building Fund may be used to pay the costs of preparing and producing video, audio and written

advertising materials, and Electronic Advertising (as defined below); preparing and producing marketing and advertising programs, including, without limitation, purchasing and placing media and employing advertising agencies and in-house staff to assist therewith; and supporting public relations, market research and other advertising and marketing activities.

(f) The Brand Building Fund shall be deposited in a separate bank account, and shall be accounted for separately from WEF's other funds and shall not be used to defray any of WEF's general operating expenses, except for such reasonable administrative costs, salaries and overhead as WEF may incur in activities related to the administration of the Brand Building Fund and its marketing programs, including, without limitation, conducting market research, incurring related accounting and legal expenses, maintaining a website and toll free number, social media marketing, token or store value card programs, preparing material and collecting and accounting for Brand Building Fund contributions. WEF may spend in any fiscal year an amount greater or less than the aggregate contribution of all Stations to the Brand Building Fund in that year and the Brand Building Fund may borrow from WEF or other lenders, on any terms determined by WEF in WEF's discretion, to cover deficits or cause the Brand Building Fund to invest any surplus for future use. All interest earned on monies contributed to the Brand Building Fund will be the Property of the Brand Building Fund but may be used to pay costs. The Brand Building Fund may be incorporated or operated through an entity separate from WEF at such time as WEF deems appropriate, and such successor entity shall have all rights and duties of WEF pursuant to this Section 11.5. Franchisee understands and acknowledges that the Brand Building Fund is intended to maximize recognition of the Marks and patronage of Stations. Although WEF will endeavor to utilize the Brand Building Fund to develop advertising, public relations, and marketing materials that will benefit all Stations, WEF undertakes no obligation to ensure that expenditures by the Brand Building Fund in or affecting any geographic area are proportionate or equivalent to the contributions by Stations operating in that geographic area or that any Station will benefit directly or in proportion to its contribution from the development of advertising and marketing materials or the placement of advertising. The Brand Building Fund is not a trust fund, and WEF does not owe Franchisee a fiduciary duty with respect to the maintenance, direction or administration of the Brand Building Fund. Except as expressly provided in this Section 11.5, WEF assumes no direct or indirect liability or obligation to Franchisee with respect to the maintenance, direction or administration of the Brand Building Fund.

(g) WEF reserves the right to terminate the Brand Building Fund, upon 30 days' written notice to Franchisee. All unspent monies on the date of termination shall be distributed to WEF's franchisees in proportion to their respective contributions to the Brand Building Fund during the preceding 12 month period. WEF shall have the right to reinstate the Brand Building Fund upon the same terms and conditions set forth herein upon 30 days' prior written notice to Franchisee.

**11.6 Electronic Advertising.** Franchisee shall not develop, create, distribute, disseminate or use any electronic or Internet communication, including, websites, advertisements, blogs, instant message services such as Twitter, social media sites such as Facebook, mobile apps, other electronic communications, or any multimedia, telecommunications, mass electronic mail messages, facsimile or audio/visual advertising, promotional, or marketing materials ("**Electronic Advertising**"), related to the Station, the Marks, the Licensed Methods, other franchisees, other Stations, WEF, or its employees and affiliates, without WEF's prior written consent which may be withheld in WEF's sole discretion. WEF shall retain the right to develop, control and approve of the content of all Electronic Advertising that refers to the Marks or the Station. If WEF permits Franchisee to develop any Electronic Advertising, Franchisee shall do so in strict compliance with WEF's policies and rules regarding the creation, maintenance, use and content of such Electronic Advertising as set forth in this Agreement or the Manual. WEF reserves the right, upon 30 days' prior written notice, to require Franchisee to participate in any Electronic Advertising sponsored by WEF. Franchisee shall not publish or communicate any of WEF's confidential information using the Internet, and Franchisee shall not publish or communicate any



of WEF's copyrighted material or information containing the Marks or any of the Licensed Methods using the Internet without WEF's prior written permission; nor shall Franchisee assist any other party in doing so. Any amounts that Franchisee spends to participate in Electronic Advertising, other than Brand Building Fund contributions, shall be credited toward Franchisee's local advertising obligations.

## **12. QUALITY CONTROL**

**12.1 Compliance with Standards.** Franchisee shall maintain and operate its Station in compliance with this Agreement, the standards and specifications contained in the Manual, as the same may be modified from time to time by WEF in WEF's discretion. WEF reserves the right to change standards and specifications for services and products offered at or through the Station and for the Station Location, equipment, fixtures, products, employee attire, supplies, forms, advertising material and other items used in connection with the Station, upon 30 days' prior written notice to Franchisee. WEF reserves the right to charge Franchisee for new products or services as may from time to time be developed by WEF, and to determine, in its sole discretion, whether such new products and services shall be offered as a part of the Licensed Methods authorized under this Agreement or shall be subject to a separate agreement or franchise. Franchisee shall, throughout the term of this Agreement, remain in compliance and strictly adhere to all of WEF's current standards and specifications for the Station as prescribed from time to time.

**12.2 Station Inspections.** WEF shall have the right to examine the Station Location, including the hookups, products, equipment, signs, fixtures, materials, supplies and services used or sold there, to ensure compliance with all standards and specifications set by WEF. WEF shall conduct such inspections during regular business hours and Franchisee may be present at such inspections. WEF, however, reserves the right to conduct the inspections without prior notice to Franchisee.

**12.3 Restrictions on Products and Services.** Franchisee is prohibited from offering or selling any products or services not authorized by WEF as being a part of the Licensed Methods. If Franchisee proposes to offer, conduct or utilize any products, services, materials, forms, supplies or services for use in connection with or for sale through the Station which are not previously approved by WEF as meeting its specifications, Franchisee shall first notify WEF in writing requesting approval. WEF shall notify Franchisee within a reasonable period of time whether any such proposed items are approved as meeting WEF's standards and specifications. WEF may, in its sole discretion, for any reason whatsoever, elect to withhold such approval; however, in order to make such determination, WEF may require submission of specifications, information, or samples of such products, services, materials, forms, items or supplies. WEF reserves the right to require that Franchisee pay and/or reimburse WEF for the reasonable costs of investigation in determining whether such products, services, materials, forms, items or supplies meet WEF's specifications.

**12.4 Approved Suppliers.** Franchisee shall purchase the Station, replacement parts for the Station, and all products, materials, supplies and services required for the operation of the Station from WEF, from WEF's affiliates, from suppliers designated or approved by WEF or, if there is no designated or approved supplier for a particular product, piece of equipment, supply, material or service, from such other suppliers who meet all of WEF's specifications and standards as to quality, composition, finish, appearance and service, and who shall adequately demonstrate their capacity and facilities to supply Franchisee's needs in the quantities, at the times, and with the reliability requisite to an efficient operation of its Station and the Franchised Business overall.

**12.5 Request to Approve Supplier.** In the event Franchisee desires to purchase or use products, supplies, materials or services from suppliers other than those previously approved by WEF, Franchisee shall, prior to purchasing from or otherwise utilizing any supplier give WEF a written request

to approve the supplier. In the event WEF rejects Franchisee's requested new supplier, WEF must, within 30 days of the receipt of Franchisee's request to approve the supplier notify Franchisee in writing of its rejection. WEF may continue from time to time to inspect any suppliers' facilities and products to assure compliance with WEF's standards and specifications. Permission for such inspection shall be a condition of the continued approval of such supplier. WEF will not unreasonably withhold approval of the supplier; however, in order to make such determination, WEF may require that samples from a proposed new supplier be delivered to WEF for testing prior to approval and use. A charge not to exceed the reasonable cost of investigation may be made by WEF and shall be paid by Franchisee.

**12.6 Shopping Service.** WEF reserves the right to use third party shopping services from time to time to evaluate the operation and quality of Franchisee's Station, including such things as water quality, equipment operations, customer service, cleanliness, merchandising and proper use of computers and monitoring devices. WEF may use such shopping services to inspect Franchisee's Station at any time at WEF's expense, without prior notification to Franchisee. WEF may make the results of any such service evaluation available to Franchisee, in WEF's sole discretion.

### **13. MARKS, TRADE NAMES AND PROPRIETARY INTERESTS**

**13.1 Marks.** Franchisee acknowledges that WEF or WEF's affiliate, Watermill Express, LLC, has the sole right to own, license and control Franchisee's use of the "WATERMILL EXPRESS®" service mark and other of the Marks, and that such Marks shall remain under the sole and exclusive ownership and control of WEF, its parent company, or other company affiliated with WEF. Franchisee shall display the Marks prominently at the Station and in connection with forms, advertising and marketing, all in a manner as WEF shall reasonably prescribe. Franchisee acknowledges that it has not acquired any right, title or interest in such Marks except for the right to use such marks in the operation of its Station as it is governed by this Agreement. Except as permitted in the Manual, Franchisee shall not use any of the Marks as part of an electronic mail address, or on any sites on the Internet and Franchisee shall not use or register any of the Marks as part of a domain name on the Internet.

**13.2 No Use of Other Marks.** No service marks other than "WATERMILL EXPRESS®" or such other Marks as may be specified by WEF shall be used in the identification, marketing, promotion or operation of the Station or the Franchised Business.

**13.3 Licensed Methods.** Franchisee acknowledges that WEF, its parent company and/or one or more of its other affiliates, owns and controls the distinctive plan for the establishment, operation and promotion of the Stations, and all related licensed methods of doing business, previously defined as the Licensed Methods, which include, but are not limited to, WEF's standards and specifications for the Station Location (including any patents related thereto), office premises, leasehold improvements, equipment, supplies, materials, water hookup, technical equipment standards, order fulfillment methods, customer relations, marketing techniques, promotional materials, advertising, accounting systems, water delivery methods, and other proprietary information, all of which constitute confidential trade secrets of WEF, its parent company and/or one or more of its other affiliates. Franchisee acknowledges that WEF, its parent company and/or one or more of its other affiliates, has valuable rights in and to such trade secrets. Franchisee further acknowledges that it has not acquired any right, title or interest in the Licensed Methods except for the right to use the Licensed Methods in the operation of Franchised Business as it is governed by this Agreement and that it is obligated to maintain the confidentiality of the Licensed Methods in accordance with Section 16.3 below.

**13.4 Infringement.** Franchisee shall notify WEF in writing of any possible infringement or illegal use by others of a trademark the same as or confusingly similar to the Marks, or the Dolifka

System or the Station design, respectively, or of any of the Licensed Methods, in no event later than three days after such infringement or illegal use comes to its attention. Franchisee acknowledges that WEF shall have the right, in its sole discretion, to determine whether any action will be taken on account of any possible infringement or illegal use. WEF may commence or prosecute such action in WEF's own name and/or the name of its parent company or other company affiliated with WEF, as the case may be, and may join Franchisee as a party to the action if WEF determines it to be reasonably necessary for the continued protection and quality control of the Marks and Licensed Methods. WEF shall bear the reasonable cost of any such action, including attorneys' fees. Franchisee must fully cooperate with WEF in any such litigation.

**13.5 Franchisee's Business Name.** Franchisee acknowledges that WEF, its parent company and/or one or more of its other affiliates, have a prior and superior claim to the "**WATERMILL EXPRESS®**" trade name. Franchisee shall not use the words "**WATERMILL EXPRESS**" in the legal name of its company, partnership or any other business entity used in conducting the Franchised Business provided for in this Agreement. Franchisee also agrees not to register or attempt to register a trade name using the words "**WATERMILL EXPRESS**" in Franchisee's name or that of any other person or business entity, without prior written consent of WEF. Franchisee shall not identify itself as being "**Watermill Express Franchising, LLC**" or as being associated with WEF in any manner other than as a franchisee or licensee or as being associated with any affiliate of WEF. Franchisee shall, in all advertising and promotion and promotional materials, display its business name only in obvious conjunction with the phrase "**Watermill Express Licensee**" or "**Watermill Express Franchisee**" or with such other words and in such other phrases to identify itself as an independent operator of the Station, as may from time to time be prescribed in the Manual.

**13.6 Change of Marks and Licensed Methods.** WEF may in its sole discretion, discontinue, change, modify, or alter the Marks and the Licensed Methods by, among other things, adopting or developing new trademarks, trade names, service marks, copyrighted materials, processes and methods for water filtering, water dispensing, ice dispensing, new equipment, new signage or new operational techniques ("**Alterations**"). If WEF shall make any Alterations to the Marks or Licensed Methods, Franchisee shall, within a reasonable time after receipt of written notice of such Alteration from WEF, but in no event more than 30 days, take such action, at Franchisee's sole expense, as may be necessary to comply with such required Alteration. Franchisee shall not unilaterally change, alter or modify the Station in any way, including, but not limited to, refraining from using or attaching any unauthorized equipment or devices to the Station, without WEF's prior written consent which may be withheld in WEF's sole discretion. In addition, Franchisee shall not change, alter, or modify the Marks or Licensed Methods in any way without WEF's prior written consent which may be withheld in WEF's sole discretion. Any approved changes or improvements to the Station, the Licensed Methods or the Marks shall inure to the exclusive benefit of WEF.

**13.7 Creative Ownership.** During the term of this Agreement, any improvements or additions to the Dolifka System, Licensed Methods, patents, copyrighted materials, recipes, website or any other documents or information pertaining to or relating to the Dolifka System, Licensed Methods, or the Franchised Business, or any new trade names, trade and service marks, logos, or commercial symbols related to the Franchised Business or any advertising and promotional ideas or inventions related to the Franchised Business (collectively, the "**Improvements**") that Franchisee conceives or develops shall become WEF's property. Franchisee agrees to assign and does hereby assign to WEF, all right, title and interest in and to the Improvements, including the right to grant sublicenses to any such Improvement. Franchisee shall fully disclose the Improvements to WEF, without disclosure of the Improvements to others, and shall obtain WEF's written approval prior to using such Improvements. Any such Improvement may be used by WEF and all other Watermill Express franchisees without any obligation to Franchisee for royalties or other fees. WEF may, in its discretion,



apply for and own copyrights, patents, trade names, trademarks and service marks relating to any such Improvement and Franchisee shall cooperate with WEF in securing such rights. WEF may also consider such Improvements as WEF's property and Trade Secrets. In return, WEF shall authorize Franchisee to utilize any Improvement that may be developed by other franchisees and is authorized generally for use by other franchisees. All Improvements created by Franchisee or any other person or entity retained or employed by Franchisee are WEF's property, and WEF shall be entitled to use and license others to use such Improvements unencumbered by moral rights. If any of the Improvements are copyrightable materials, they shall be works made for hire within the meaning of the United States Copyright Act and, to the extent the copyrighted materials are not works made for hire or rights in the copyrighted materials do not automatically accrue to WEF, Franchisee irrevocably assigns and agrees to assign to WEF, and WEF's successors and assigns, the entire right, title, and interest in perpetuity throughout the world in and to any and all rights, including all copyrights and related rights, in such Copyrighted Materials, which Franchisee and the author of such copyrighted materials warrant and represent as being created by and wholly original with the author. Where applicable, Franchisee agrees to obtain any other assignments of rights in the Improvements from another person or entity necessary to ensure WEF's right in the Improvements as required in this Section.

**13.8 Alterations for Protection of Marks.** WEF may, in its sole discretion, but with reasonable notice to Franchisee, enter onto the Station Location to make any Alterations required for the protection of the Marks and Licensed Methods, including, but not limited to, the signs, fixtures, or trade dress of the Station, if Franchisee refuses to make any Alterations required by the Manual or under the terms of this Agreement. If WEF elects to make such Alteration on Franchisee's behalf, WEF reserves the right to charge Franchisee for all expenses incurred by WEF in connection with such Alteration including WEF's travel, lodging, living expenses, telephone charges and other identifiable expenses (such as construction and materials), plus a fee based on the time spent by each of WEF's employees or agents on behalf of Franchisee.

**13.9 Photo/Video Release.** Franchisee acknowledges and authorizes WEF to use Franchisee's, the Station and/or the Station Location's likeness in a photograph in any and all of WEF's publications, including printed and digital publications and on websites. Franchisee agrees and understands that any photograph using Franchisee's, the Station and/or the Station Location's likeness will become WEF's property and will not be returned. Franchisee agrees and irrevocably authorizes WEF's to edit, alter, copy, exhibit, publish or distribute any such photograph for any lawful purpose. Franchisee agrees and waives any rights to royalties or any other compensation related to WEF's use of any such photograph. Franchisee agrees to hold harmless and forever discharge WEF from all claims, demands, and causes of action which Franchisee may have in connection with this authorization.

## **14. TRANSFER**

**14.1 Transfer by Franchisee.** The franchise granted herein is personal to Franchisee and, except as stated below, WEF shall not allow or permit any transfer, assignment, subfranchise or conveyance of this Agreement or any interest hereunder. As used in this Agreement, the term "transfer" shall mean and include the voluntary, involuntary, direct or indirect assignment, sale, gift, or other disposition by Franchisee (or any of its owners) of any interest in: (1) this Agreement; (2) the ownership of Franchisee; or (3) Franchised Business. Also included in the definition of Transfer is a transfer resulting from: (i) a divorce, insolvency, corporate or partnership dissolution proceeding, merger or otherwise by operation of law; (ii) in the event of the death of Franchisee or an owner of Franchisee by will, declaration of or transfer in trust or under the laws of intestate succession; and (iii) an assignment of a security interest in other encumbrance of the Station or equipment used in the operation of the Station.

**14.2 Pre-Conditions to Franchisee's Transfer.** Franchisee shall not conduct a transfer unless Franchisee obtains WEF's prior written consent and complies with the following requirements, any one or more of which WEF may waive, in the case of a particular transfer, in its sole discretion:

(a) Payment of all amounts due and owing pursuant to this Agreement by Franchisee to WEF or its affiliates or to third parties holding a security interest in any asset of the Franchised Business;

(b) Agreement by the proposed transferee to satisfactorily complete the initial training program described in this Agreement, which training may be completed by the transferee either prior to or immediately after assignment of this Agreement;

(c) Execution by the transferee of a franchise agreement in a form then currently offered by WEF, which shall supersede this Agreement in all respects. If a new franchise agreement is signed, the terms thereof may differ from the terms of this Agreement;

(d) If leasing any equipment, execution by the transferee of one or more equipment leases in a form required by WEF and in the form then being offered by WEF to new Franchisees. Franchisee acknowledges that the form of lease offered to the transferees may differ materially from the lease or leases signed by Franchisee, including higher lease rates and shorter terms;

(e) Provision by Franchisee of written notice to WEF 45 days prior to the proposed effective date of the transfer, such notice to contain information reasonably detailed to enable WEF to evaluate the terms and conditions of the proposed transfer;

(f) The proposed transferee shall have provided information to WEF sufficient for WEF to assess the proposed transferee's business experience, aptitude and financial qualification, and WEF shall have ascertained that the proposed transferee meets such qualifications as described in this Section 14.2.

(g) Execution by Franchisee of a general release, in a form satisfactory to WEF, of any and all claims against WEF, its affiliates and their respective officers, directors, employees and agents;

(h) Payment by Franchisee or the proposed transferee of 25% of the then-current initial franchise fee for each Station being transferred; and

(i) Agreement by Franchisee to abide by the post-termination covenant not to compete set forth in Section 16.2 below.

(j) If this Agreement has been executed pursuant to an area development agreement with WEF (whether or not such agreement remains in effect), then:

- (i) if three (3) or fewer Stations are operated pursuant to the area development agreement, all Stations operated pursuant to the area development agreement must be included in the proposed transfer; or
- (ii) if four (4) or more Stations are operated pursuant to the area development agreement, at least half of all Stations operated pursuant to the area development agreement must be transferred.

**14.3 WEF's Approval of Transfer.** WEF shall have 45 days from the date of the written notice of the proposed transfer to approve or disapprove in writing, of Franchisee's proposed transfer which approval will not be unreasonably withheld. Franchisee acknowledges that the proposed transferee shall be evaluated for approval by WEF based on the same criteria as is currently being used to assess new franchisees of WEF and that such proposed transferee shall be provided, if appropriate, with such disclosures as may be required by state or federal law. If Franchisee and the proposed transferee comply with all conditions for assignment set forth herein and WEF has not given Franchisee notice of its approval or disapproval within the 45-day period, approval is deemed granted. WEF's approval of any transfer shall not constitute approval for any subsequent transfer or a waiver of any of WEF's rights under this Section 14.

**14.4 Right of First Refusal.** In the event Franchisee wishes to transfer its rights under this Agreement or any interest in it, or any part or portion of any business entity that owns it, or all or a substantial portion of the assets of the Station, Franchisee agrees to grant to WEF a 45-day right of first refusal to purchase such rights, interest, or assets, on the same terms and conditions as are contained in the written offer to purchase submitted to Franchisee by the proposed purchaser; provided, however, the following additional terms and conditions shall apply:

(a) Franchisee shall notify WEF of such offer by sending a written notice to WEF (which notice may be the same notice as required by Section 14.2(e) above), enclosing a copy of the written offer from the proposed purchaser;

(b) The 45-day right of first refusal period will run concurrently with the period in which WEF has to approve or disapprove the proposed transferee;

(c) Such right of first refusal is effective for each proposed transfer and any material change in the terms or conditions of the proposed transfer shall be deemed a separate offer on which a new 30-day right of first refusal shall be given to WEF;

(d) If the consideration or manner of payment offered by a third party is such that WEF may not reasonably be required to furnish the same, then WEF may purchase the interest which is proposed to be sold for the reasonable cash equivalent. If the parties cannot agree within a reasonable time on the cash consideration, an independent appraiser shall be designated by WEF, whose determination will be binding upon the parties. All expenses of the appraiser shall be paid for equally between WEF and Franchisee; and

(e) If WEF chooses not to exercise its right of first refusal, Franchisee shall be free to complete the sale, transfer, or assignment, subject to compliance with Sections 14.1, 14.2 and 14.3 above.

**14.5 Specific Types of Transfers.** Franchisee acknowledges that WEF's right to approve or disapprove of a proposed sale or transfer shall apply and, except for certain provisions of Section 14.2 above as may be waived by WEF, all other requirements and rights related to such proposed sale or transfer as provided for above shall apply:

(a) If Franchisee is a partnership, limited partnership, or other business association, to the addition or deletion of a partner, limited partner, or association member, or the transfer of any partnership or membership among existing partners, limited partners or members, if such addition, deletion, or transfer results in (i) a change in the ownership interests totaling 25% or more, or (ii) a change in control or, if no one person owns more than 50%, a change in the group of owners of a majority

of the outstanding ownership interests of the entity, provided however, that WEF shall be promptly notified of any change in ownership that does not require WEF's prior approval;

(b) If Franchisee is a corporation or limited liability company, to any proposed transfer or assignment of 25% or more of the ownership interests of Franchisee or any proposed transfer that would result in a change in control, or, if no one person owns more than 50%, a change in the group of owners of a majority of the outstanding ownership interests, whether such transfer occurs in a single transaction or several transactions, provided, however, that WEF shall be promptly notified of any change in ownership that does not require WEF's prior approval;

(c) If Franchisee is an individual, to the transfer from such individual or individuals to a corporation, partnership, or limited liability company controlled by them, in which case WEF's approval will be conditioned upon: (i) the continuing personal guarantee of the individual (or individuals) for the performance of obligations under this Agreement; (ii) the issuance and/or transfer of ownership interests which would effect a change in ownership of 25% or more of the stock, partnership interest, or membership units in the entity being conditioned on WEF's prior written approval; (iii) a limitation on the entity's business activity to that of operating the Station and related activities; and (iv) other reasonable conditions;

(d) If Franchisee entity is being converted from one of the legal entities described in this Section 14.5 to another; and

(e) If Franchisee or any of its owners holding 25% or more of the ownership interests in Franchisee entity propose to transfer to a trust for the benefit of their family members solely for estate planning purposes; however, WEF shall waive its right of first refusal described in Section 14.4 above and shall approve of the transfer so long as there is no change in control of Franchisee entity or change in such owner's participation in the management or operation of the Franchised Business, if applicable.

**14.6 Franchisee's Death or Disability.** Upon the death or Permanent Disability of Franchisee (or the individual controlling Franchisee entity), the executor, administrator, conservator, guardian or other personal representative of such person shall transfer Franchisee's interest in this Agreement or such interest in Franchisee entity to an approved third party. Such disposition of this Agreement or such interest (including, without limitation, transfer by bequest or inheritance) shall be completed within a reasonable time, not to exceed 180 days from the date of death or Permanent Disability, and shall be subject to all terms and conditions applicable to transfers contained in this Section 14; provided, however, WEF shall reduce the transfer fee described in Section 14.2(h) above to \$1,000. Failure to transfer the interest in this Agreement or such interest in Franchisee entity within said period of time shall constitute a breach of this Agreement. For the purposes hereof, the term "**Permanent Disability**" shall mean a mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent Franchisee or the owner of a controlling interest in Franchisee entity from supervising the management and operation of the Franchised Business, including the Station, for a period of 120 days from the onset of such disability, impairment or condition.

**14.7 Assignment by WEF.** This Agreement is fully assignable by WEF and shall inure to the benefit of any assignee or other legal successor in interest, and WEF shall in such event be fully released from the same upon the completion of such assignment.

## 15. DEFAULT AND TERMINATION

**15.1 Termination by WEF - Effective Upon Notice.** WEF shall have the right, at its option, to terminate this Agreement and all rights granted Franchisee hereunder, without affording Franchisee any opportunity to cure any default (subject to any state laws to the contrary, where state law shall prevail), effective upon receipt of notice by Franchisee, addressed as provided in Section 18.2 upon the occurrence of any of the following events:

(a) Abandonment. If Franchisee ceases to operate all or any portion of the Franchised Business, including the Station, or otherwise abandons all or any portion of the Franchised Business, including the Station, for a period of three consecutive days or any shorter period that indicates an intent by Franchisee to discontinue operation, unless and only to the extent that full operation of the Franchised Business or the Station is suspended or terminated due to fire, flood, earthquake or other similar causes beyond Franchisee's control and not related to the availability of funds to Franchisee;

(b) Insolvency; Assignments. If Franchisee becomes insolvent or is adjudicated a bankrupt; or if any action is taken by Franchisee, or by others against Franchisee under any insolvency, bankruptcy or reorganization act, (this provision may not be enforceable under federal bankruptcy law, 11 U.S.C. §§ 101 et seq.); or if Franchisee makes an assignment for the benefit of creditors or a receiver is appointed by Franchisee;

(c) Unsatisfied Judgments; Levy; Foreclosure. If any material judgment (or several judgments which in the aggregate are material) is obtained against Franchisee and remains unsatisfied or of record for 30 days or longer (unless a supersedeas or other appeal bond has been filed); or if execution is levied against Franchisee's business or any of the property used in the operation of the Station and is not discharged within five days; or if the real or personal property of Franchisee's business shall be sold after levy thereupon by any sheriff, marshal or constable;

(d) Criminal Conviction. If Franchisee is convicted of a felony, a crime involving moral turpitude, or any crime or offense that is reasonably likely, in the sole opinion of WEF, to materially and unfavorably affect the Licensed Methods, Marks, goodwill or reputation thereof;

(e) Failure to Make Payments. If Franchisee fails to pay any Royalty, Brand Building Fees, inventory payments, or any other amounts due WEF or its affiliates, including any amounts which may be due as a result of any subleases or lease assignments between Franchisee and WEF or its affiliates, within 10 days after receiving notice that such fees or amounts are overdue;

(f) Misuse of Marks. If Franchisee misuses or fails to follow WEF's directions and guidelines concerning use of WEF's Marks and fails to correct the misuse or failure within 10 days after notification from WEF;

(g) Unauthorized Disclosure. If Franchisee intentionally or negligently discloses to any unauthorized person the contents of or any part of WEF's Manual or any other trade secrets or confidential information of WEF or of its parent company and/or one or more of its other affiliates;

(h) Participation in a Competitive Business. If Franchisee or one of Franchisee's officers, directors, members, managers, or owners participates in the operation of a Competitive Business in violation of the terms of this Agreement;

(i) Repeated Noncompliance. If Franchisee has received two previous notices of default from WEF and is again in default of this Agreement within a 12 month period, regardless of whether the previous defaults were cured by Franchisee; or

(j) Unauthorized Transfer. If Franchisee sells, transfers or otherwise assigns the franchise, an interest in the franchise, or the Franchisee entity, this Agreement, the Station, or a substantial portion of the assets of the Station owned by Franchisee without complying with the provisions of Section 14 above;

(k) Failure to Open or Operate. If Franchisee fails to open by the date that is six months from the effective date of this Agreement; or

(l) Breach of Other Related Agreement. Franchisee defaults under any term of any sublease or lease for the Station Location, any product or water supply agreement, any equipment maintenance agreement, any security agreement, any other agreement material to the Station, or any other franchise agreement or any other contract between WEF or any of its affiliates and Franchisee and such default is not cured within the time specified in such sublease, lease, supply agreement, maintenance agreement, security agreement, other agreement or other franchise agreement.

**15.2 Termination by WEF - Thirty Days' Notice.** WEF shall have the right to terminate this Agreement (subject to any state laws to the contrary, where state law shall prevail), effective upon 30 days written notice to Franchisee, if Franchisee breaches any other provision of this Agreement and fails to cure the default during such 30 day period. In that event, this Agreement will terminate without further notice to Franchisee, effective upon expiration of the 30 day period. Defaults shall include, but not be limited to, the following:

(a) Failure to Maintain Standards. Franchisee fails to maintain the then current operating procedures and adhere to the specifications and standards established by WEF as set forth herein or in the Manual or otherwise communicated to Franchisee;

(b) Deceptive Practices. Franchisee engages in any unauthorized business or practice or sells any unauthorized product or service under WEF's Marks or under a name or mark which is confusingly similar to WEF's Marks;

(c) Failure to Obtain Consent. Franchisee fails, refuses or neglects to obtain WEF's prior written approval or consent as required by this Agreement; or

(d) Failure to Comply with Manual. Franchisee fails or refuses to comply with the then-current requirements of the Manual.

Notwithstanding the foregoing, if the breach is curable, but is of a nature which cannot be reasonably cured within such 30-day period and Franchisee has commenced and is continuing to make good faith efforts to cure the breach during such 30-day period, Franchisee shall be given an additional reasonable period of time to cure the same, but in no event more than 30 additional days and this Agreement shall not automatically terminate without written notice from WEF.

**15.3 Right to Purchase.** Upon termination or expiration of this Agreement for any reason, WEF shall have the option to purchase some or all of the assets of the Franchised Business, at their fair market value, less any goodwill attributable to the Marks and the Licensed Methods and less any amounts owed to WEF by Franchisee. At WEF's option, WEF may purchase all of Franchisee's interest in and to the real estate upon which the Station is located, and all improvements thereon, at fair market



value, less any amount apportioned to goodwill which is attributable to WEF's Marks and Licensed Methods, and less any amounts owed to WEF by Franchisee. The following additional terms shall apply to WEF's purchase of the assets by exercise of the option described in this Section 15.3:

(a) WEF's option hereunder shall be exercisable by providing Franchisee with written notice of its intention to exercise the option given to Franchisee no later than the effective date of termination, in the case of termination, or at least 90 days prior to expiration of the term of the franchise, in the case of non-renewal.

(b) In the event that WEF and Franchisee cannot agree on the fair market value of the assets, then the fair market value shall be determined by an independent third party appraisal. WEF and Franchisee shall mutually agree on the appraiser. If WEF and franchisee cannot mutually agree on the appraiser within 30 days after WEF provides notice of its intent to exercise the option, then each party shall select one independent, qualified appraiser, and the two so selected shall select a third appraiser, who shall be the sole appraiser to determine the fair market value of the assets. The appraiser shall render a decision of the fair market value of the assets within 30 days after the appraiser has been determined. The appraiser decision shall be fixed and non-appealable. If the parties agreed on the appraiser, the cost of the appraiser shall be evenly split between the parties. If there are three appraisers, the parties shall bear the expenses of their selected appraiser and shall evenly split the expenses of the third appraiser.

(c) WEF and Franchisee agree that the terms and conditions of this right and option to purchase may be recorded, if deemed appropriate by WEF, in the real property records and WEF and Franchisee further agree to execute such additional documentation as may be necessary and appropriate to effectuate such recording; and

(d) WEF shall set the closing for the purchase of the assets and other to take place no later than 60 days after the termination or nonrenewal date. At WEF's option, Franchisee shall continue the Franchised Business' or Station operations by extension of this Agreement through the closing date. WEF will pay the purchase price in full at the closing, or, at its option, in 12 equal consecutive monthly installments with interest at a rate of 8% per annum. Franchisee must sign all documents of assignment and transfer as are reasonably necessary for purchase of the assets, including the Franchised Business or its other assets by WEF.

In the event that WEF does not exercise WEF's option to purchase all of the assets of Franchisee's Franchised Business as set forth above, Franchisee will be free to keep or to sell, after such termination or expiration, to any third party, all of the physical assets of its Franchised Business other than the Station and all leased equipment; provided, however, that all appearances of the Marks and WEF's color scheme and trade dress are first removed in a manner approved in writing by WEF.

**15.4 Obligations of Franchisee Upon Termination or Expiration.** Franchisee is obligated upon termination or expiration of this Agreement to immediately:

(a) Pay to WEF all Royalties, Brand Building Fees, other fees, and any and all amounts or accounts payable then owed WEF or its affiliates pursuant to this Agreement, or pursuant to any other agreement, whether written or oral, including subleases and lease assignments, between the parties;

(b) Cease to identify itself as a Watermill Express franchisee or publicly identify itself as a former Franchisee and cease using any of WEF's Marks, Confidential Information, Licensed Methods including but not limited to the water and ice equipment, computer boards, dispensing system, software, signs, devices or other materials;

(c) Deliver to WEF all signs, sign-faces, advertising materials, forms and other materials bearing any of the Marks or otherwise identified with or proprietary to WEF and obtained by and in connection with this Agreement;

(d) Immediately deliver to WEF the Manual and all other information, whether paper, electronic or in other media, and copies thereof which are proprietary to WEF, including but not limited to all customer information;

(e) Upon demand by WEF, sell to WEF all water and ice dispensing equipment related to the Dolifka System or purchased from WEF or any of its affiliates at the fair market value of the equipment after deducting depreciation and value associated with the Marks;

(f) Deliver to WEF all proprietary computer software provided to Franchisee during the term of this Agreement and all copies thereof, including all data in the databases of all such software programs;

(g) Promptly take such action as may be required to cancel all fictitious or assumed names or equivalent registrations relating to its use of any Marks which are under the exclusive control of WEF or, at the option of WEF, assign the same to WEF;

(h) Notify the telephone company and all telephone directory publishers of the termination, expiration, or assignment of Franchisee's right to use any telephone number and any regular, classified or other telephone directory listings associated with any Mark and to authorize transfer thereof to WEF or its designee, if requested by WEF. Franchisee acknowledges that, as between Franchisee and WEF, WEF has the sole rights to and interest in all telephone, telecopy or facsimile machine numbers and directory listings associated with any Mark. Franchisee authorizes WEF, and hereby appoints WEF and any of its officers as Franchisee's attorney-in-fact, to direct the telephone company and all telephone directory publishers to transfer any telephone, telecopy or facsimile machine numbers and directory listings relating to the Franchised Business to WEF or its designee, should Franchisee fail or refuse to do so, and the telephone company and all telephone directory publishers may accept such direction or this Agreement as conclusive of WEF's exclusive rights in such telephone numbers and directory listings and WEF's authority to direct their termination or transfer;

(i) If applicable, take such action as may be required to remove from the Internet all sites, social media websites and transfer all e-mail addresses referring to Franchisee's former Franchised Business or any of the Marks and to cancel or assign to WEF, in WEF's sole discretion, all rights to any domain names for any sites or social media websites on the Internet and all e-mail addresses that refer to Franchisee's former Franchised Business or any of the Marks; and

(j) Abide by all restrictive covenants set forth in Section 16 of this Agreement and, if exercised by WEF, WEF's option to purchase described in Section 15.3 of this Agreement.

**15.5 Acknowledgement.** In the event this Agreement is terminated by WEF prior to its expiration as set forth in Sections 15.1 and 15.2 above, Franchisee acknowledges and agrees that, in addition to all other available remedies, WEF shall have the right to recover lost future Royalties and Brand Building Fees during any period in which Franchisee fails to pay such Royalties and Brand Building Fees through and including the remainder of the then current term of this Agreement.

**15.6 State and Federal Law.** THE PARTIES ACKNOWLEDGE THAT IN THE EVENT THAT THE TERMS OF THIS AGREEMENT REGARDING TERMINATION OR EXPIRATION ARE INCONSISTENT WITH APPLICABLE STATE OR FEDERAL LAW, SUCH LAW SHALL



## GOVERN FRANCHISEE'S RIGHTS REGARDING TERMINATION OR EXPIRATION OF THIS AGREEMENT.

**15.7 Cross Default.** If Franchisee develops or operates more than one Station pursuant to a separate franchise agreement or area developer agreement, a default related to the development or operation of any one Station shall be deemed, in the sole discretion of WEF, to be a default of this entire Agreement, entitling WEF to terminate all rights of Franchisee hereunder for each and every Station.

## 16. RESTRICTIVE COVENANTS

**16.1 Non-Competition During Term.** Franchisee acknowledges that, in addition to the training provided pursuant to this Agreement and the license of the Marks hereunder, WEF has also licensed commercially valuable information which comprises and is a part of the Licensed Methods, including without limitation, the Dolifka System, proprietary software, equipment which is located at the Station Location, operations, vendor lists, marketing, advertising and related information and materials and that the value of this information derives not only from the time, effort and money which went into its compilation, but from the usage of the same by all the franchisees of WEF and affiliate companies of WEF using the Marks and Licensed Methods. Therefore, other than the Station licensed herein or authorized by separate agreement with WEF, neither Franchisee nor any of Franchisee's officers, directors, shareholders, equity owners, members, managers or partners, employees nor any member of his or their immediate families, shall during the term of this Agreement:

- (a) have any direct or indirect interest as a disclosed, undisclosed or beneficial owner in a Competitive Business, as defined below;
- (b) perform services as a director, officer, manager, employee, lender, partner, consultant, representative, agent or otherwise for a Competitive Business; or
- (c) divert or attempt to divert any business related to, or any customer or account of the Station, WEF's business, the business of any of WEF's affiliates or any other Watermill Express franchisee's business, by direct inducement or otherwise, or divert or attempt to divert the employment of any employee of WEF or another franchisee licensed by WEF to use the Marks and Licensed Methods, to any Competitive Business by any direct inducement or otherwise.

The term "**Competitive Business**" as used in this Agreement shall mean any business operating, whether retail, wholesale or otherwise, or granting franchises or licenses or distributorships to others to operate, a drinking water and/or ice business featuring water sales or ice sales through retail stores, including but not limited to self-serve dispensing machines, or providing services relating to or selling residential or commercial water filtration systems, home water delivery services, bottled water, or any services related to the sale of ice or drinking water, which business derives more than 5% of its gross sales from the sale of drinking water and/or ice. Notwithstanding the foregoing, Franchisee shall not be prohibited from passively owning securities in a Competitive Business if such securities are listed on a stock exchange or traded on the over-the-counter market and represent 2% or less of that class of securities issued and outstanding.

**16.2 Post-Termination Covenant Not to Compete.** Upon termination or expiration of this Agreement for any reason, neither Franchisee nor its officers, directors, shareholders, members, managers and/or partners and their immediate family ("**Franchisee Affiliates**") shall, for a period of two years commencing on the effective date of termination or expiration, or the date on which Franchisee ceases to conduct business, whichever is later ("**Post-Term Restricted Period**"), have any direct or indirect interest (through a member of any immediate family of Franchisee or its owners or otherwise) as

a disclosed or beneficial owner, investor, partner, director, officer, employee, lender, partner, consultant, representative or agent or in any other capacity in any Competitive Business, defined in Section 16.1 above, located or operating within a 15-mile radius of any Station Location, within 15 miles of any Station Location of any other franchised Station or, within 15 miles of the Station premises of any Station owned by WEF or any affiliate of WEF, or within 15 miles of any business selling filtered drinking water and/or ice owned or operated by WEF or any of its affiliates. If a court of competent jurisdiction determines that the two-year restricted period in this Section 16.2 is too long to be enforceable to Franchisee, then the “**Post-Term Restricted Period**” means, with respect to Franchisee, a period of one (1) year after the termination, expiration or Transfer of this Agreement. If a court of competent jurisdiction determines that the two-year Post-Term Restricted Period is too long to be enforceable with respect to Franchisee’s officers, directors, shareholders, members and/or partners, then the “Post-Term Restricted Period” means, with respect to an Franchisee’s officers, directors, shareholders, members and/or partners, a period of one (1) year after the earlier to occur of (i) the termination, expiration or transfer of this Agreement or (ii) the Franchisee’s officers, directors, shareholders, members and/or partners transfer of his or her entire ownership interest in the franchise or the entity that is the franchisee, as applicable. Franchisee and Franchisee Affiliates acknowledge that they possess skills and abilities of a general nature and have other opportunities for exploiting such skills. Consequently, enforcement of the covenants made in this Section will not deprive them of their personal goodwill or ability to earn a living.

**16.3 Confidentiality of Proprietary Information.** Franchisee and WEF acknowledge that the distinctive business format, equipment, plans, methods, data, processes, marketing systems, Manuals, techniques, designs, layouts, operating procedures, proprietary software, company growth plans, strategy, research and development information, listings of Station Locations, business plans, patented processes and patented designs, including but not limited to the Dolifka System, the ice system, the Marks and information and know-how of WEF which are developed and utilized in connection with the Licensed Methods are proprietary and confidential (“**Confidential Information**”). Such Confidential Information is unique, exclusive property and a trade secret of WEF and/or its parent company or one or more of its affiliates, and has valuable goodwill associated with it. Franchisee acknowledges that any unauthorized disclosure or use of the Confidential Information would be wrongful and would cause irreparable injury and harm to WEF and its affiliates. It is understood that Confidential Information is deemed to include, without limitation, customers lists, vendor lists, patents, any and all information contained in the Manual, and any information of whatever nature which gives WEF and its affiliates an opportunity to obtain an advantage over its competitors who do not have access to, know or use such lists, written materials, formulas or information. Franchisee further acknowledges that WEF and its affiliates have expended a great amount of effort and money in obtaining and developing the Confidential Information, that WEF and its affiliates have taken numerous precautions to guard the secrecy of the Confidential Information, that it would be very costly for competitors to acquire or duplicate the Confidential Information and that any unauthorized disclosure of such Confidential Information shall cause irreparable harm to WEF and its affiliates. Consequently, Franchisee shall not at any time, publish, disclose, divulge or in any manner communicate to any person, firm, corporation, association, partnership or any other entity whatsoever or use, directly or indirectly, for its own benefit or for the benefit of any person, firm, corporation or other entity other than for the use of WEF or Franchisee’s Franchised Business, any of the Confidential Information of WEF or its affiliates. WEF and Franchisee agree that the Confidential Information does not include information that is generally available to the public.

**16.4 Third Party Beneficiaries.** Franchisee acknowledges and agrees that WEF’s parent company or any of its affiliates who own any of the Confidential Information shall be deemed a third party beneficiary of this Section 16, and shall have the right to enforce each and every provision of this Section 16 either together with or separately from WEF.

**16.5 Confidentiality Agreement.** WEF reserves the right to require that Franchisee cause each of its officers, directors, partners, shareholders, equity owners, members, managers (i.e., the General Manager and Operations Manager) and, if Franchisee is an individual, immediate family members, to execute a Nondisclosure and Noncompetition Agreement containing the above restrictions, in a form approved by WEF.

**16.6 Dispute Resolution.**

(a) Except as otherwise provided in this Agreement, any claim or controversy arising out of or related to this Agreement, or the making, performance, breach, interpretation, or termination thereof, except for any actions brought with respect to: (i) the Marks; (ii) issues concerning the alleged violations of federal or state antitrust laws; (iii) securing injunctive relief or specific performance; or (iv) the right to indemnification or the manner in which it is exercised, shall first be subject to non-binding mediation in the city and state of principal business address, currently in Brighton, Colorado, under the auspices of the Judicial Arbitration and Mediation Services, Inc. (“JAMS”), in accordance with JAMS’ Commercial Mediation Rules then in effect. Each party will bear its own costs of mediation and WEF and Franchisee will share mediation costs equally. This agreement to mediate will survive any termination, expiration or transfer of this Agreement. Mediation shall not defer or suspend WEF’s exercise of any termination right.

(b) No litigation may be commenced on any claim which is subject to mediation prior to the Mediation Termination Date (as defined in Section 16.6(b)(ii)), whether or not the mediation has commenced. Mediation under this Section is not intended to alter or suspend the rights or obligations of the parties under this Agreement or to determine the validity or effect of any provision of this Agreement, but is intended to furnish the parties an opportunity to resolve disputes amicably, expeditiously and in a cost-effective manner on mutually acceptable terms.

- (i) The non-binding mediation provided for under this Agreement will be commenced by the party requesting mediation giving written notice of the request for mediation to the party with whom mediation is sought. The request will specify with reasonable particularity the matters for which non-binding mediation is sought.
- (ii) Non-binding mediation hereunder will be concluded either (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; (ii) as a result of a written declaration by WEF; or (iii) within 60 days of the issuance of the request for mediation, or such longer period as may be agreed upon by the parties in writing (“**Mediation Termination Date**”). All aspects of the mediation process will be treated as confidential, will not be disclosed to others, and will not be offered or admissible in any other proceeding or legal action whatsoever. The parties will each bear their own costs of mediation, and will share equally in the cost of the mediator or mediation service.

**16.7 Limitations on Proceedings.**

(a) ANY DISAGREEMENT BETWEEN WEF AND FRANCHISEE (AND/OR WEF’S AFFILIATES AND OWNERS AND/OR ANY OWNER OF FRANCHISEE) WILL BE CONSIDERED UNIQUE AS TO ITS FACTS AND MUST NOT BE BROUGHT AS A CLASS ACTION. FRANCHISEE WAIVES ANY RIGHT TO PROCEED AGAINST WEF (AND WEF’S AFFILIATES, STOCKHOLDERS, MEMBERS, MANAGERS, OFFICERS, DIRECTORS,

EMPLOYEES, AGENTS, SUCCESSORS AND ASSIGNS) BY WAY OF CLASS ACTION, OR BY WAY OF A MULTI-PLAINTIFF, CONSOLIDATED OR COLLECTIVE ACTION.

(b) NO PREVIOUS COURSE OF DEALING WILL BE ADMISSIBLE TO EXPLAIN, MODIFY, OR CONTRADICT THE TERMS OF THIS AGREEMENT. NO IMPLIED COVENANT OF GOOD FAITH AND FAIR DEALING MAY BE USED TO ALTER THE EXPRESS TERMS OF THIS AGREEMENT.

**16.8 Governing Law/Consent to Venue and Jurisdiction/Waiver of Punitive Damages and Jury Trial.**

(a) Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or other federal law, this Agreement shall be interpreted under the laws of the State of Colorado and any dispute between the parties shall be governed by and determined in accordance with the substantive laws of the State of Colorado, which laws shall prevail in the event of any conflict of law. Notwithstanding the foregoing, the parties agree that the Colorado Consumer Protection Act (Colo. Rev. Stat. Ann. Section 611-1-101, et seq.) shall not apply to this Agreement or any dispute between the parties. Franchisee and WEF have negotiated regarding a forum in which to resolve any disputes which may arise between them and have agreed to select a forum in order to promote stability in their relationship. Therefore, if a claim is asserted in any legal proceeding involving Franchisee, its officers, directors, managers, or Franchisee Affiliates (“**Releasing Parties**”) and WEF, its officers, directors or sales employees (collectively, “**WEF Affiliates**”) the parties agree that the exclusive venue for disputes between them shall be brought in a court of competent jurisdiction in Denver, Colorado. Both parties irrevocably submit themselves to, and consent to, the exclusive jurisdiction of said courts in the state and federal courts of Colorado and each party waives any objection they may have to the personal jurisdiction of or venue in the state and federal courts of Colorado.

(b) WEF, WEF AFFILIATES AND THE RELEASING PARTIES EACH WAIVE THEIR RIGHTS, TO THE FULLEST EXTENT PERMITTED BY LAW, TO ANY RIGHT OR CLAIM FOR ANY PUNITIVE, MULTIPLE, EXEMPLARY, INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES AGAINST ONE ANOTHER ARISING OUT OF ANY CAUSE WHATSOEVER (WHETHER SUCH CAUSE IS BASED IN CONTRACT, NEGLIGENCE, STRICT LIABILITY, OTHER TORT OR OTHERWISE) AND AGREE THAT IN THE EVENT OF A DISPUTE BETWEEN WEF, WEF AFFILIATES AND/OR THE RELEASING PARTIES EACH OF THE PARTIES WILL BE LIMITED TO THE RECOVERY OF ANY: (A) ACTUAL DAMAGES SUSTAINED BY IT; AND (B) TRADEMARK LAW TREBLE DAMAGES. IF SUCH CLAIMS AND DEMANDS CANNOT BE WAIVED BY LAW, THEN THE PARTIES AGREE THAT ANY RECOVERY WILL NOT EXCEED TWO (2) TIMES ACTUAL DAMAGES. WEF, WEF AFFILIATES AND THE RELEASING PARTIES IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY ANY PARTY.

(c) The Prevailing Party in any action or proceeding arising under, out of, in connection with, or in relation to this Agreement will be entitled to recover its reasonable costs and expenses (including attorney fees, expert witness fees, costs of investigation and proof of facts, court costs, and other litigation expenses) incurred in connection with the claims on which it prevailed. For the purposes of this Agreement in general and this Section specifically, the “**Prevailing Party**” will be

deemed to be that party which has obtained the greatest Net Judgment in terms of money or money equivalent. If money or money equivalent has not been awarded, then the Prevailing Party will be that party which has prevailed on a majority of the material issues decided. The “**Net Judgment**” is determined by subtracting the smallest award of money or money equivalent from the largest award.

**16.9 Injunctive Relief.** Franchisee acknowledges that a breach of this Agreement by Franchisee, which relates to any of the matters set out below, will cause us irreparable harm for which monetary damages are an inadequate remedy. Therefore, in addition to any other remedies WEF has under this Agreement, WEF is entitled to seek and obtain the entry of temporary and permanent injunctions and orders of specific performance enforcing the provisions of this Agreement with respect to: (i) the Marks; (ii) the Dolifka System; (iii) the Licensed Methods; (iv) the obligations of Franchisee upon termination or expiration of this Agreement; (v) transfers; (vi) Confidential Information; (vii) covenants not to compete with WEF; and (viii) any act or omission by Franchisee or its employees that: (a) constitutes a violation of any legal requirement; (b) is dishonest or misleading to customers of the Franchised Business or any of WEF’s other franchises or Stations; (c) constitutes a danger to the employees or customers of your Franchised Business or to the public; or (d) may impair the goodwill associated with the Marks, the Dolifka System or the Licensed Methods. WEF will be entitled to seek such relief in a court of competent jurisdiction, and will not be required to seek any such relief or remedy in any mediation proceeding. Neither party is required to post a bond or other security with respect to obtaining injunctive relief. If WEF secures any such injunction, Franchisee agrees to pay to WEF an amount equal to the aggregate of WEF’s costs and expenses, including without limitation reasonable attorney fees, costs, and expenses, that WEF incurs in obtaining such relief.

## **17. BUSINESS RELATIONSHIP**

**17.1 Independent Businesspersons.** The parties acknowledge that each of them are independent businesspersons, that their only relationship is by virtue of this Agreement and that no fiduciary relationship is created hereunder. Neither party is liable or responsible for the other’s debts or obligations, nor shall either party be obligated for any damages to any person or property directly or indirectly arising out of the operation of the other party’s business authorized by or conducted pursuant to this Agreement. WEF will not be obligated for any damages, claim, or obligation to any person or property, directly or indirectly arising out of Franchisee’s operation of the Franchised Business, whether or not caused by Franchisee’s negligent or willful action or failure to act, or Franchisee’s use of the Marks in a manner not in accordance with this Agreement. Franchisee must not use any of the Marks in signing any contract or in applying for any license or permit or in a manner that may result in our liability for your debts or obligations. Neither WEF nor Franchisee will hold themselves out to be the agent, employer or partner of the other and neither WEF nor Franchisee has the authority to bind or incur liability on behalf of the other.

**17.2 Payment of Third Party Obligations.** WEF shall have no liability for Franchisee’s obligations to pay any third parties (including, but not limited to, employees, independent contractors and consultants), including without limitation, any equipment or product vendors, or any sales, use, service, occupation, excise, gross receipts, income, property or other tax levied upon Franchisee, Franchisee’s property, the Franchised Business, including the Station, or upon WEF in connection with the sales made or business conducted by Franchisee (except any taxes WEF is required by law to collect from Franchisee with respect to purchases from WEF).

## **18. MISCELLANEOUS**

**18.1 Entire Agreement.** This Agreement, including all attachments and addenda, shall be construed together and constitute the entire agreement between the parties hereto with respect to the



subject matter and there are no terms, obligations, covenants, representations, statements or conditions other than those contained in this Agreement or the documents referred to herein. This Agreement supersedes and cancels all previous written or oral understandings, agreements, negotiations, commitments, or any other writing or communication with respect to the subject matter, except as set forth herein. Franchisee acknowledges that it is entering into this Agreement as a result of its own independent investigations and not as a result of any representations of WEF, its agents, officers or employees not contained in any disclosure document, prospectus, or other similar documents required to be given to Franchisee pursuant to applicable law. Franchisee agrees and understands that WEF shall not be liable or obligated for any oral representations or commitments made prior to the execution hereof or for claims of negligent or fraudulent misrepresentation and that no modifications of this Agreement shall be effective except those in writing and signed by both parties. WEF does not authorize and will not be bound by any representation of any nature other than those expressed in this Agreement and in the Franchise Disclosure Document (“FDD”) that was provided to Franchisee with this Agreement. Franchisee further acknowledges and agrees that no representations have been made to it by WEF regarding projected sales volumes, market potential, revenues, profits of Franchisee’s Franchised Business, or operational assistance other than as stated in this Agreement or in any disclosure document provided by WEF or its representatives. Nothing in this or any related agreement, however, is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you.

**18.2 Notices.** Any notice required or permitted to be given hereunder shall be in writing and shall be deemed to be fully given when delivered personally, sent by certified mail, return receipt requested or when sent by overnight delivery service providing documentation of receipt. Notices to WEF or Franchisee shall be addressed to that party’s respective address as set forth on the signature page to this Agreement. Either party may designate another or additional address or agent at any time by appropriate written notice to the other.

**18.3 Review of Franchise Agreement.** Franchisee acknowledges that it had a copy of this agreement and accompanying FDD in its possession for a period of time not less than fourteen (14) full calendar days, during which time Franchisee has had the opportunity to submit same for professional review and advice of Franchisee’s choosing prior to freely executing this Agreement.

**18.4 Binding Nature.** The covenants and agreements contained herein shall be binding upon and inure to the benefit of the permitted heirs, executors, administrators, other legal representatives, successors and assigns of the respective parties hereto. In the event of an assignment of this Agreement by WEF, WEF shall be relieved and released from all liability hereunder from the date of such assignment.

**18.5 Submission of Agreement.** The submission of this Agreement does not constitute an offer, and this Agreement shall become effective only upon the execution thereof by WEF and Franchisee.

**18.6 Electronic Signature.** This Agreement may be signed with full legal force and effect using electronic signatures and records.

**18.7 Modification.** Any modification or change in this Agreement must be in writing and executed by both parties. Franchisee acknowledges that WEF may modify its standards and specifications set forth in the Manual unilaterally under any conditions and to the extent to which WEF, in its reasonable discretion, deems necessary to protect, promote, or improve WEF’s Marks, copyrights and the Licensed Methods, but under no circumstances will such modifications be made without good cause therefor. Franchisee agrees to accept and utilize any such changes or modifications which are

reasonably requested as if they were a part of this Agreement. Changes in the Manual will not unreasonably change or modify the financial obligations of Franchisee hereunder.

**18.8 Construction.** The language used in this Agreement shall be deemed to be language chosen by both parties hereto to express their mutual intent, and no rule of strict construction against either party shall apply to any term or condition of this Agreement.

**18.9 Severability.** In case any one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect in any jurisdiction, the validity, legality and enforceability of such provision or provisions shall not in any way be affected or impaired thereby in any other jurisdiction and the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be otherwise affected or impaired thereby provided that such deleted provision or provisions do not materially affect the responsibilities of, and/or benefits to be derived by, the parties from this Agreement.

**18.10 Effective Date.** This Agreement shall not be effective until accepted by WEF as evidenced by dating and signing by an officer of WEF.

**18.11 Delegation by WEF.** From time to time, WEF shall have the right to delegate the performance of any portion or all of its obligations and duties hereunder to third parties, whether the same are agents of WEF or independent contractors which WEF has contracted with to provide such services. Franchisee agrees in advance to any such delegation by WEF of any portion or all of its obligations and duties hereunder.

**18.12 Payment of Taxes.** Franchisee shall reimburse WEF, or its affiliates and designees, promptly and when due, the amount of all sales taxes, use taxes, personal property taxes and similar taxes imposed upon, required to be collected or paid by WEF, or its affiliates or designees, on account of services or goods furnished by WEF, its affiliates or designees, to Franchisee through sale, lease or otherwise, or on account of collection by WEF, its affiliates or designees, of the Royalties, Brand Building Fees, payment for inventory or any other payments made by Franchisee to WEF required under the terms of this Agreement.

**18.13 No Waiver.** No waiver of any condition or covenant contained in this Agreement or failure to exercise a right or remedy by WEF or Franchisee shall be considered to imply or constitute a further waiver by WEF or Franchisee of the same or any other condition, covenant, right, or remedy.

**18.14 No Right to Set Off.** Franchisee shall not be allowed to set off amounts owed to WEF for Royalties, Brand Building Fees, fees or other amounts due hereunder, against any monies owed to Franchisee, nor shall Franchisee in any event withhold such amounts due to any alleged nonperformance by WEF hereunder, which right of set off is hereby expressly waived by Franchisee.

**18.15 Cumulative Rights.** The rights and remedies of WEF and Franchisee hereunder are cumulative and no exercise or enforcement by WEF or Franchisee of any right or remedy hereunder shall preclude the exercise or enforcement by WEF or Franchisee of any other right or remedy hereunder which WEF or Franchisee is entitled by law to enforce.

*(Signatures on following page)*

**IN WITNESS WHEREOF**, the parties have executed this Agreement to be made effective as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**WATERMILL EXPRESS FRANCHISING, LLC**

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_  
\_\_\_\_\_  
(Individually)  
Date: \_\_\_\_\_

\_\_\_\_\_  
(Individually)  
Date: \_\_\_\_\_

OR:

(if a corporation or partnership)

\_\_\_\_\_  
Company Name

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_



## ATTACHMENT I

### ADDENDUM TO WATERMILL EXPRESS FRANCHISE AGREEMENT BETWEEN WATERMILL EXPRESS FRANCHISING, LLC AND

Watermill Express Franchising, LLC (“WEF”) and \_\_\_\_\_ (“Franchisee”) are entering into a certain Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_, (“Agreement”) and desire to supplement certain terms of the Agreement. In the event that a conflict arises in the terms of the Agreement and this Addendum, the terms of this Addendum shall be controlling. The initial capitalized terms contained in this Addendum shall have the same meaning as defined in the Agreement.

1. **Station Location.** The “Station Location”, referenced in Section 3.1 of the Agreement shall be \_\_\_\_\_.

2. **Protected Area.** The Protected Territory for the Station, referenced in Section 3.2 of the Agreement, shall be the geographic area described as:

- a \_\_\_\_\_ mile radius surrounding the Station.

OR

- The geographic area within the following boundaries: \_\_\_\_\_.

3. **Equipment Fee.** The Equipment Fee referenced in Section 10.1 of the Agreement, shall be \_\_\_\_\_.

4. **Brand Building Fee.** The Brand Building Fee, referenced in Section 11.5 of the Agreement shall currently be waived by WEF; however, WEF shall have the right, upon 30 days prior notice to Franchisee, to institute all or a portion of such fee, up to 2% of Gross Sales.

5. **Legal Address.** The business address for any notices mailed pursuant to Section 18.2 of the Agreement shall be changed to read as follows: \_\_\_\_\_.

Fully executed to be made effective the \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**WATERMILL EXPRESS FRANCHISING, LLC**

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

## ATTACHMENT II

### OWNER'S AGREEMENT

As a condition to the granting by Watermill Express Franchising, LLC (“we” or “us”), of a Franchise Agreement with \_\_\_\_\_ (“Franchisee”), each of the undersigned individuals (“Owners”), who constitute all of the owners of a beneficial interest in Franchisee, as well as their respective spouses, covenant and agree to be bound by this Owners Agreement (“Owner’s Agreement”).

#### 1. **Acknowledgments.**

1.1 **Franchise Agreement.** Franchisee entered into a franchise agreement with us effective as of \_\_\_\_\_, 20\_\_ (“Franchise Agreement”). Capitalized words not defined in this Owner’s Agreement will have the same meanings ascribed to them in the Franchise Agreement.

1.2 **Owners’ Role.** Owners are the beneficial owners or spouses of the beneficial owners of all of the equity interest in Franchisee and acknowledge there are benefits received and to be received by each Owner, jointly and severally, and for themselves, their heirs, legal representatives and assigns. Franchisee’s obligations under the Franchise Agreement, including the confidentiality and non-compete obligations, would be of little value to us if Franchisee’s owners were not bound by the same requirements. Under the provisions of the Franchise Agreement, Owners are required to enter into this Owner’s Agreement as a condition to our entering into the Franchise Agreement with Franchisee. Owners will be jointly and severally liable for any breach of this Owner’s Agreement.

#### 2. **Non-Disclosure and Protection of Confidential Information.**

Under the Franchise Agreement, we will provide Franchisee with specialized training, proprietary trade secrets, and other Confidential Information relating to the establishment and operation of a franchised business. The provisions of the Franchise Agreement governing Franchisee’s non-disclosure obligations relating to our Confidential Information are hereby incorporated into this Owner’s Agreement by reference, and Owners agree to comply with each obligation as though fully set forth in this Owner’s Agreement as a direct and primary obligation of Owners. Further, we may seek the same remedies against Owners under this Owner’s Agreement as we may seek against Franchisee under the Franchise Agreement. Any and all information, knowledge, know-how, techniques, and other data, which we designate as confidential, will also be deemed Confidential Information for purposes of this Owner’s Agreement.

#### 3. **Covenant Not To Compete.**

3.1 **Non-Competition During and After the Term of the Franchise Agreement.** Owners acknowledge that as a participant in our system, they will receive proprietary and confidential information and materials, trade secrets, and the unique methods, procedures and techniques which we have developed. The provisions of the Franchise Agreement governing Franchisee’s restrictions on competition both during the term of the Franchise Agreement and following the expiration or termination of the Franchise Agreement are hereby incorporated into this Owner’s Agreement by reference, and Owners agree to comply with and perform each such covenant as though fully set forth in this Owner’s Agreement as a direct and primary obligation of Owners. Further, we may seek the same remedies against Owners under this Owner’s Agreement as we may seek against Franchisee under the Franchise Agreement.

3.2 **Construction of Covenants.** The parties agree that each such covenant related to non-competition will be construed as independent of any other covenant or provision of this Owner’s Agreement. If all or

any portion of a covenant referenced in this Section 3 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in a final decision to which we are a party, Owners agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 3.

3.3 Our Right to Reduce Scope of Covenants. Additionally, we have the right, in our sole discretion, to unilaterally reduce the scope of all or part of any covenant referenced in this Section 3 of this Owner's Agreement, without Owners' consent (before or after any dispute arises), effective when we give Owners written notice of this reduction. Owners agree to comply with any covenant as so modified.

#### **4. Guarantee.**

4.1 Payment. Owners will pay us (or cause us to be paid) all monies payable by Franchisee under the Franchise Agreement on the dates and in the manner required for payment in the relevant agreement.

4.2 Performance. Owners unconditionally guarantee full performance and discharge by Franchisee of all of Franchisee's obligations under the Franchise Agreement on the date and times and in the manner required in the relevant agreement.

4.3 Indemnification. Owners will indemnify, defend and hold harmless us, all of our affiliates, and the respective shareholders, directors, partners, employees, and agents of such entities, against and from all losses, damages, costs, and expenses which we or they may sustain, incur, or become liable for by reason of: (a) Franchisee's failure to pay the monies payable (to us or any of our affiliates) pursuant to the Franchise Agreement, or to do and perform any other act, matter, or thing required by the Franchise Agreement; or (b) any action by us to obtain performance by Franchisee of any act, matter, or thing required by the Franchise Agreement.

4.4 No Exhaustion of Remedies. Owners acknowledge and agree that we will not be obligated to proceed against Franchisee or exhaust any security from Franchisee or pursue or exhaust any remedy, including any legal or equitable relief against Franchisee, before proceeding to enforce the obligations of the Owners as guarantors under this Owner's Agreement and the Franchise Agreement.

#### **5. Notices.**

5.1 Method of Notice. Any notices given under this Owner's Agreement shall be in writing and delivered in accordance with the provisions of the Franchise Agreement.

5.2 Notice Addresses. Our current address for all communications under this Owner's Agreement is:

Watermill Express Franchising, LLC  
1177 South Fourth Avenue  
Brighton, Colorado 80601  
Attn: President

The current address of each Owner for all communications under this Owner's Agreement is designated on the signature page of this Owner's Agreement. Any party may designate a new address for notices by giving written notice to the other parties of the new address according to the method set forth in the Franchise Agreement.

## **6. Enforcement of This Owner's Agreement.**

6.1 Dispute Resolution. Any claim or dispute arising out of or relating to this Owner's Agreement shall be subject to the dispute resolution provisions of the Franchise Agreement. This agreement to engage in such dispute resolution process shall survive the termination or expiration of this Owner's Agreement.

6.2 Choice of Law; Jurisdiction and Venue. This Owner's Agreement and any claim or controversy arising out of, or relating to, any of the rights or obligations under this Owner's Agreement, and any other claim or controversy between the parties, will be governed by the choice of law and jurisdiction and venue provisions of the Franchise Agreement.

6.3 Provisional Remedies. We have the right to seek from an appropriate court any provisional remedies, including temporary restraining orders or preliminary injunctions to enforce Owners' obligations under this Owner's Agreement. Owners acknowledge and agree that there is no adequate remedy at law for Owners' failure to fully comply with the requirements of this Owner's Agreement. Owners further acknowledge and agree that, in the event of any noncompliance, we will be entitled to temporary, preliminary, and permanent injunctions and all other equitable relief that any court with jurisdiction may deem just and proper. If injunctive relief is granted, Owners' only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, Owners expressly waive all claims for damages they incurred as a result of the wrongful issuance.

## **7. Miscellaneous.**

7.1 No Other Agreements. This Owner's Agreement constitutes the entire, full and complete agreement between the parties, and supersedes any earlier or contemporaneous negotiations, discussions, understandings or agreements. There are no representations, inducements, promises, agreements, arrangements, or undertakings, oral or written, between the parties relating to the matters covered by this Owner's Agreement, other than those in this Owner's Agreement. No other obligations, restrictions or duties that contradict or are inconsistent with the express terms of this Owner's Agreement may be implied into this Owner's Agreement. Except for unilateral reduction of the scope of the covenants permitted in Section 3.3 (or as otherwise expressly provided in this Owner's Agreement), no amendment, change or variance from this Owner's Agreement will be binding on either party unless it is mutually agreed to by the parties and executed in writing. Time is of the essence.

7.2 Severability. Each provision of this Owner's Agreement, and any portions thereof, will be considered severable. If any provision of this Owner's Agreement or the application of any provision to any person, property or circumstances is determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Owner's Agreement will be unaffected and will still remain in full force and effect. The parties agree that the provision found to be invalid or unenforceable will be modified to the extent necessary to make it valid and enforceable, consistent as much as possible with the original intent of the parties (i.e. to provide maximum protection for us and to effectuate the Owners' obligations under the Franchise Agreement), and the parties agree to be bound by the modified provisions.

7.3 No Third-Party Beneficiaries. Nothing in this Owner's Agreement is intended to confer upon any person or entity (other than the parties and their heirs, successors and assigns) any rights or remedies under or by reason of this Owner's Agreement.

7.4 Construction. Any term defined in the Franchise Agreement which is not defined in this Owner's Agreement will be ascribed the meaning given to it in the Franchise Agreement. The language of this

Owner's Agreement will be construed according to its fair meaning, and not strictly for or against either party. All words in this Owner's Agreement refer to whatever number or gender the context requires. If more than one party or person is referred to as you, their obligations and liabilities must be joint and several. Headings are for reference purposes and do not control interpretation

7.5 Binding Effect. This Owner's Agreement may be executed in counterparts, and each copy so executed and delivered will be deemed an original. This Owner's Agreement is binding on the parties and their respective heirs, executors, administrators, personal representatives, successors and (permitted) assigns.

7.6 Successors. References to "Franchisor" or "the undersigned," or "you" include the respective parties' heirs, successors, assigns or transferees.

7.7 Nonwaiver. Our failure to insist upon strict compliance with any provision of this Owner's Agreement shall not be a waiver of our right to do so. Delay or omission by us respecting any breach or default shall not affect our rights respecting any subsequent breaches or defaults. All rights and remedies granted in this Owner's Agreement shall be cumulative.

7.8 No Personal Liability. You agree that fulfillment of any and all of our obligations written in the Franchise Agreement or this Owner's Agreement, or based on any oral communications which may be ruled to be binding in a court of law, shall be our sole responsibility and none of our owners, officers, agents, representatives, nor any individuals associated with us shall be personally liable to you for any reason.

7.9 Owner's Agreement Controls. In the event of any discrepancy between this Owner's Agreement and the Franchise Agreement, this Owner's Agreement shall control.

*(Signatures on following page)*

IN WITNESS WHEREOF, the parties have entered into this Owner's Agreement as of the effective date of the Franchise Agreement.

**OWNERS:**

Owner	Address
<div><div>[Insert Name of Owner]</div><div>[Insert Name of Spouse]</div></div>	
<div><div>[Insert Name of Owner]</div><div>[Insert Name of Spouse]</div></div>	

**ATTACHMENT III**  
**STATEMENT OF OWNERSHIP**

Franchisee:

Trade Name (if different from above):

Form of Ownership (Check One)

☐ Individual      ☐ Partnership      ☐ Corporation      ☐ Limited Liability Company      ☐ Other: \_\_\_\_\_

If a Partnership, provide name and address of each partner showing percentage owned, whether active in management, indicate the state in which the partnership was formed, and whether the Partnership is a general partnership or a limited partnership and whether each partner is a general or limited partner. Attach a copy of signed partnership agreement to this Attachment III.

If a Limited Liability Company, provide name and address of each member and each manager showing percentage owned and indicate the state and date of organization. Attach copies of articles of organization and signed operating agreement to this Attachment III.

If a Corporation, give the state and date of incorporation, the names and addresses of each officer and director, and list the names and addresses of every shareholder showing what percentage of stock is owned by each. Attach copies of articles of incorporation, bylaws and minutes showing all stock issuances to this Attachment III.

If another type of business entity, provide the country, state and/or province and date of formation, the name and address of the officers or managers, and list the names and addresses of every owner and the percentage of ownership interest held by each owner. Attach copies of any formation documents to this Attachment III.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Franchisee acknowledges that this Statement of Ownership applies to the Franchised Business, including the Station authorized under the Franchise Agreement.

Use additional sheets if necessary. Any and all changes to the above information during the term of the Franchise Agreement must be reported to WEF in writing, including all changes to the organizational documents required to be attached to this Attachment III.

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_



**EXHIBIT C**

**AREA DEVELOPMENT AGREEMENT**

**EXHIBIT C**

**WATERMILL EXPRESS FRANCHISING, LLC**

**AREA DEVELOPMENT AGREEMENT**

**Area Developer:** \_\_\_\_\_

**Date:** \_\_\_\_\_

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### ATTACHMENTS:

Attachment A:	Data Sheet
Attachment B:	Development Schedule
Attachment C:	Statement of Shareholders/Members/Partners

**WATERMILL EXPRESS FRANCHISING, LLC  
AREA DEVELOPMENT AGREEMENT**

**THIS AREA DEVELOPMENT AGREEMENT** ("Agreement") is made and entered on the date set forth in Attachment A hereto ("Effective Date") by and between Watermill Express Franchising, LLC, a Colorado limited liability company ("WEF"), with a business address at 1177 South Fourth Avenue, Brighton, CO 80601 and the area developer set forth in Attachment A hereto ("Area Developer").

**WITNESSETH:**

**WHEREAS**, WEF holds the exclusive franchise rights relating to the establishment, development and operation of drive-up, self-serve vending outlets that dispense pure drinking water and ice 24 hours per day, seven days per week ("Watermill Express Station(es)").

**WHEREAS**, in addition to this Area Development Agreement, WEF and Area Developer have entered into a Franchise Agreement (the "Initial Franchise Agreement") for your first Watermill Express Station (the "Initial Business"); and

**WHEREAS**, Area Developer desires to purchase the rights to establish and operate multiple Watermill Express Stations within the territory described in Attachment A ("Development Territory"), under the development schedule described in Attachment B ("Development Schedule") and pursuant to the terms and conditions of this Agreement.

**NOW, THEREFORE**, the parties, in consideration of the promises, undertakings and commitments of each party to the other party set forth herein, hereby mutually agree as follows:

**1. GRANT**

1.1 WEF hereby grants to Area Developer the right to establish and operate the number of Watermill Express Station indicated in Section 2 of Attachment B within the Development Territory described in Attachment A. Each Watermill Express Station shall be operated according to the terms of the individual franchise agreement ("Franchise Agreement").

1.2 If the Area Developer is developing Watermill Express Stations, and complies with the terms of this Agreement, the Development Schedule, and the individual Franchise Agreement for each Watermill Express Station, then WEF will not franchise or license others, nor will it itself directly or indirectly develop, own, lease, construct or operate in any manner, any Watermill Express Stations in the Development Territory during the term of this Agreement. WEF reserves all other rights, including the right to otherwise act in the manner permitted in any Franchise Agreement. Upon the expiration or termination of this Agreement, the Area Developer will no longer have any rights to the Development Territory other than the territory granted with each Watermill Express Station pursuant to the terms of each Franchise Agreement. The rights granted under this Section 1.2 shall automatically terminate on Area Developer's failure to adhere to the Development Schedule.

1.3 This Agreement is not a franchise agreement and Area Developer shall have no right to use in any manner the WEF trademarks or franchise system by virtue hereof. Each Watermill Express Station will be governed by the individual Franchise Agreement signed by WEF and Area Developer or its affiliate, for each Watermill Express Station.

1.4 Area Developer shall identify all equity owners of Area Developer by completing the Statement of Shareholders/Members/Partners attached to this Agreement as Attachment C. Area Developer shall provide WEF with an updated form of Attachment C within ten (10) business days of any change in the equity ownership of Area Developer. The failure of Area Developer to provide WEF with an updated Attachment C within the time frame specified in this Section 1.4 shall constitute a material default of this Agreement.

## 2. TERM

Unless sooner terminated pursuant to the provisions of Section 7, the term of this Agreement shall expire upon the earlier of (a) the Termination Date listed on Section 1 of Attachment B, or (b) completion of the obligations of the Development Schedule.

## 3. INITIAL FRANCHISE FEE

Area Developer must pay an “Initial Franchise Fee” as set forth in Attachment A upon execution of this Agreement. No initial franchise fee will be due upon the execution of each single-unit Franchise Agreement to be developed under this Agreement. All amounts collected shall be deemed fully earned immediately upon receipt and shall be non-refundable, regardless of whether Area Developer opens any of the Watermill Express Stations it is obligated to open in the Development Territory.

## 4. DEVELOPMENT SCHEDULE AND MANNER FOR EXERCISING DEVELOPMENT RIGHTS

4.1 Area Developer shall exercise the development rights granted under this Agreement only by entering into a separate Franchise Agreement with WEF for each Watermill Express Station for which a development right is granted. The Franchise Agreement to be executed for the first Watermill Express Station to be developed by Area Developer under this Agreement shall be executed and delivered, concurrently with the execution and delivery of this Agreement and the Area Development Agreement. All subsequent Watermill Express Stations developed under this Agreement shall be established and operated pursuant to the form of Franchise Agreement then being used by WEF for a Watermill Express Station. Area Developer acknowledges that the then-current form of Franchise Agreement may differ from the Initial Franchise Agreement, except that each shall have the same royalty rate as the Initial Franchise Agreement.

### 4.2 Development Schedule.

(a) Acknowledging that time is of the essence, Area Developer agrees to exercise its development rights according to Section 4.1, and according to the Development Schedule set forth on Attachment B, designates the number of Franchise Agreements that must be executed upon the expiration of each of the designated development periods (“Development Periods”) for the operation of Watermill Express Stations.

(b) Area Developer shall open each Watermill Express Station in accordance with the terms of the Franchise Agreement and shall execute the Franchise Agreements in accordance with the Development Schedule set forth on Attachment B.

(c) Failure by Area Developer to adhere to the Development Schedule shall result in a loss of the territorial rights granted in Section 1.2 of this Agreement. Failure by Area Developer to adhere to the Development Schedule on two (2) or more occasions shall constitute a material event of default under this Agreement.

## 5. LOCATION OF WATERMILL EXPRESS STATIONS

The location of each Watermill Express Station shall be selected by the Area Developer in accordance with the terms set forth in each Franchise Agreement signed by Area Developer, within the Development Territory.

## 6. FRANCHISE AGREEMENT

Area Developer shall not commence construction on, or open any Watermill Express Station until, among other things; the individual Franchise Agreement for that Watermill Express Station has been signed by both the Area Developer and WEF.

## 7. DEFAULT AND TERMINATION

7.1 Area Developer will be in default of this Agreement if it (or its affiliate(s)): (a) fails to comply with the Development Schedule on two (2) or more occasions; (b) fails to perform any of its obligations under this Agreement or any individual Franchise Agreement; or (c) fails to comply with the provisions on transfer contained herein. Upon default, WEF shall have the right, at its option, and in its sole discretion, to do any or all of the following:

- (a) terminate this Agreement;
- (b) terminate the Development Territory's exclusivity;
- (c) reduce the size of the Area Developer's Development Territory; or
- (d) permit Area Developer to extend the Development Schedule.

7.2 In addition, if any individual Franchise Agreement issued to Area Developer or an approved affiliate of Area Developer, whether or not issued pursuant to this Agreement, is terminated for any reason, WEF shall have the right to terminate this Agreement on immediate written notice to Area Developer. Upon termination or expiration of the term of this Agreement, this Agreement shall be of no further effect, and WEF shall have the right to open, or license others to open, Watermill Express Stations within the Development Territory. For purposes of this Section 7.2, any Franchise Agreement issued by WEF to Area Developer or its approved affiliates, or any corporation, partnership or joint venture, or their affiliates, in which Area Developer or any stockholder, partner or joint venturer of Area Developer, has any direct or indirect ownership or participation interest, shall be deemed a Franchise Agreement issued to Area Developer.

## 8. ASSIGNMENT

8.1 WEF shall have the absolute right to transfer or assign all or any part of its rights or obligations hereunder to any person or legal entity which assumes its obligation under this Agreement and WEF shall thereby be released from any and all further liability to Area Developer.

8.2 Area Developer may not assign this Agreement or any rights to the Development Territory. The provisions of this Section 8.2 shall not restrict Area Developer from transferring an open and operating Watermill Express Station in compliance with the assignment provisions contained in such Watermill Express Station's Franchise Agreement.

9. FORCE MAJEURE

In the event that Area Developer is unable to comply with the Development Schedule due to strike, riot, civil disorder, war, failure to supply, fire, natural catastrophe or other similar events beyond its control, and upon notice to WEF, the Development Schedule and this Agreement shall be extended for a corresponding period, not to exceed 90 days.

10. ENTIRE AGREEMENT

This Agreement constitutes the entire understanding of the parties with respect to the development of the Development Territory, and shall not be modified except by a written agreement signed by the parties hereto. However, nothing in this Agreement or any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document. Where this Agreement and any Franchise Agreement between the parties conflict with respect to the payment terms of initial franchise fees or equity interests held by the Area Developer or operating partners, the terms of this Agreement shall govern. Under no circumstances do the parties intend that this Agreement be interpreted in a way as to grant Area Developer any rights to grant sub-franchises in the Development Territory.

11. INDEPENDENT CONTRACTOR AND INDEMNIFICATION

11.1 It is acknowledged and agreed that Area Developer and WEF are independent contractors and nothing contained herein shall be construed as constituting Area Developer as the agent, partner or legal representative of WEF for any purpose whatsoever. Area Developer shall enter into contracts for the development of the Development Territory contemplated by this Agreement at its sole risk and expense and shall be solely responsible for the direction, control and management of its agents and employees. Area Developer acknowledges that it does not have authority to incur any obligations, responsibilities or liabilities on behalf of WEF, or to bind WEF by any representations or warranties, and agrees not to hold itself out as having this authority.

11.2 Area Developer agrees to protect, defend, indemnify and hold WEF harmless from and against all claims, actions, proceedings, damages, costs, expenses and other losses and liabilities, directly or indirectly incurred as a result of, arising from, out of, or in connection with Area Developer's carrying out its obligations hereunder.

12. SUCCESSORS AND ASSIGNS

This Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their heirs, successors, permitted assigns and personal representatives.

13. APPLICABLE LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado, which laws shall govern in the event of any conflict of laws, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et. seq.). The parties expressly consent to personal jurisdiction in the State of Colorado and agree that, except as set forth in

Section 15, the state and federal court(s) located nearest to Adams County, Colorado that have jurisdiction will have exclusive jurisdiction for the purposes of carrying out this provision.

14. NOTICE

Whenever this Agreement requires notice, it shall be in writing and shall be sent by registered or certified mail, return receipt requested, to the other party at the addresses set forth below, unless written notice is given of a change of address.

All notices to Area Developer shall be conclusively deemed to have been received by Area Developer upon the delivery or attempted delivery of this notice to Area Developer's address listed herein, or the changed address.

Notices to WEF:

**Watermill Express Franchising, LLC  
1177 South Fourth Avenue  
Brighton, CO 80601**

Notice to Area Developer:

**Address Set Forth in Attachment A.**

15. DISPUTE RESOLUTION

15.1 Except as otherwise provided in this Agreement, any claim or controversy arising out of or related to this Agreement, or the making, performance, breach, interpretation, or termination thereof, except for any actions brought with respect to: (i) WEF trademarks; (ii) issues concerning the alleged violations of federal or state antitrust laws; (iii) securing injunctive relief or specific performance; or (iv) the right to indemnification or the manner in which it is exercised, shall first be subject to non-binding mediation in the city and state of principal business address, currently in Brighton, Colorado. Mediation shall not defer or suspend Franchisor's exercise of any termination right.

- (a) No arbitration or litigation may be commenced on any claim which is subject to mediation prior to the Mediation Termination Date (as defined in Section 15.1(c)), whether or not the mediation has commenced. Mediation under this Section 15 is not intended to alter or suspend the rights or obligations of the parties under this Agreement or to determine the validity or effect of any provision of this Agreement, but is intended to furnish the parties an opportunity to resolve disputes amicably, expeditiously and in a cost-effective manner on mutually acceptable terms.
- (b) The non-binding mediation provided for under this Agreement will be commenced by the party requesting mediation giving written notice of the request for mediation to the party with whom mediation is sought. The request will specify with reasonable particularity the matters for which non-binding mediation is sought.
- (c) Non-binding mediation hereunder will be concluded within 60 days of the issuance of the request for mediation, or such longer period as may be agreed upon by the parties in writing ("Mediation Termination Date"). All aspects of the mediation process will be treated as confidential, will not be disclosed to others, and will not be offered or admissible in any other proceeding or legal



action whatsoever. The parties will each bear their own costs of mediation, and will share equally in the cost of the mediator or mediation service.

15.2 Subject to Section 15.1 of this agreement, and except for any actions brought with respect to: (i) WEF trademarks; (ii) issues concerning the alleged violations of federal or state antitrust laws; (iii) securing injunctive relief or specific performance; or (iv) the right to indemnification or the manner in which it is exercised or as precluded by applicable law, any controversy or claim between WEF and area developer arising out of or relating to this agreement or any alleged breach hereof, and any issues pertaining to the arbitrability of such controversy or claim and any claim that this agreement or any part hereof is invalid, illegal, or otherwise voidable or void, shall be submitted to binding arbitration. The parties agree that all controversies, claims and disputes between them arising out of or relating to this agreement, the rights and obligations of the parties hereto, or any other claims or causes of action relating to the performance of either party, and/or the purchase of the development rights by area developer shall be finally resolved by submitting this matter to binding arbitration under the auspices of, and using the commercial arbitration rules of, the American Arbitration Association, as such rules are in effect as of the date the demand for arbitration is filed. A single arbitrator shall be selected in accordance with standard AAA procedure. In accordance with the terms of the federal arbitration act, the arbitrator shall hear the dispute in the American Arbitration Association offices nearest to Adams County, Colorado. Each party shall bear its own costs and attorney fees and one-half (1/2) of the arbitrator's expenses. The arbitrator shall have no authority to amend or modify the terms of this agreement. Each party further agrees that, unless a limitation is prohibited by applicable law, the other party shall not be liable for punitive or exemplary damages and the arbitrator shall have no authority to award the same. The decision of the arbitrator shall be final and binding. The area developer knows, understands, and agrees that it is the intent of the parties that any arbitration between WEF and the area developer shall be of the area developer's individual claims and that the claims subject to arbitration shall not be arbitrated in conjunction with the claims of other area developers or franchisees or on a class-wide basis, and area developer hereby waives any right it may assert to have its claims arbitrated in conjunction with the claims of other area developers or franchisees or on a class-wide basis.

15.3 Notwithstanding any provision contained in this Section 15, WEF may, at its sole option, institute an action or actions for temporary or preliminary injunctive relief or seeking any other temporary or permanent equitable relief against the Area Developer that may be necessary to protect its trademarks or other rights or property. However, the final right of determination of the ultimate controversy, claim or dispute shall be decided by arbitration as aforesaid and recourse to the courts shall thereafter be limited to seeking an order to enforce an arbitral award. In no event shall the Area Developer be entitled to make, the Area Developer shall not make, and the Area Developer hereby waives, any claim for money damages by way of set-off, counterclaim, defense or otherwise based upon any claim or assertion by the Area Developer that WEF has unreasonably withheld or unreasonably conditioned or delayed any consent or approval to a proposed act by the Area Developer under any of the terms of this Agreement. The Area Developer's sole remedy for any claim shall be an action or proceeding to enforce any provisions, for specific performance or declaratory judgment.

## 16. ACKNOWLEDGEMENTS

16.1 Area Developer acknowledges and recognizes that different terms and conditions, including different fee structures, may pertain to different Area Development Agreements and franchise agreements offered in the past, contemporaneously herewith, or in the future, and that WEF does not represent that all Area Development Agreements or franchise agreements are or will be identical.

16.2 Area Developer acknowledges that it is not, nor is it intended to be, a third party beneficiary of this Agreement or any other agreement to which WEF is a party.

16.3 Area Developer represents to WEF that it has the business acumen, corporate authority, and financial wherewithal to enter into this Agreement and to perform all of its obligations hereunder, and furthermore, that the execution of this Agreement is not in contravention of any other written or oral obligation of the Area Developer.

16.4 Area Developer acknowledges and accepts the following:

The success of the Area Developer in managing and operating multiple Watermill Express Stations is speculative and will depend on many factors including, to a large extent, Area Developer's independent business ability. Area Developer has been given the opportunity and been encouraged to obtain independent advice from legal and other professionals before entering into this Agreement. This offering is not a security as that term is defined under applicable Federal and State securities laws. The obligation to train, manage, pay, recruit and supervise employees of the Watermill Express Stations rests solely with Area Developer. Area Developer has not relied on any warranty or representation, expressed or implied, as to the potential success or projected income of the business venture contemplated hereby. No representations or promises have been made by WEF to induce Area Developer to enter into this Agreement except as specifically included herein. WEF has not made any representation, warranty or guaranty, express or implied, as to the potential revenues, profits or services of the business venture to Area Developer and cannot, except under the terms of this Agreement, exercise control over Area Developer's business. Area Developer acknowledges and agrees that it has no knowledge of any representation made by WEF or its representatives of any information that is contrary to the terms contained herein.

**(Signatures on following page)**

**IN WITNESS WHEREOF**, the parties hereto have duly signed and delivered this Agreement on the day and year first written above.

**WEF:**

**WATERMILL EXPRESS FRANCHISING, LLC**  
a Colorado limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AREA DEVELOPER:**

\_\_\_\_\_  
a(n) \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## ATTACHMENT A

### DATA SHEET

1. Effective Date. The Effective Date set forth in the introductory Paragraph of the Area Development Agreement is: \_\_\_\_\_, 201\_.

2. Area Developer. The Area Developer set forth in the introductory Paragraph of the Area Development Agreement is: \_\_\_\_\_

3. Notice Address. The notice address for Area Developer set forth in Section 14 of the Area Development Agreement is:

Attn: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Initial Franchise Fee. The Initial Franchise Fee in Section 3 of the Area Development Agreement and number of Watermill Express Stations Area Developer has the option to develop shall be the amount and number indicated in the following chart:

Number of Watermill Express Stations	Initial Franchise Fee	Select One
Up to 3	\$75,000	_____
Up to 4	\$80,000	_____
Up to 5	\$100,000	_____
Up to 6	\$108,000	_____
Up to 7	\$126,000	_____
Up to 8	\$144,000	_____
Up to 9	\$162,000	_____
Up to 10	\$150,000	_____
10+	\$15,000 per Station (write # of Stations in box to right)	_____

5. Description of the Development Territory

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**WEF:**

**WATERMILL EXPRESS FRANCHISING, LLC**  
a Colorado limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AREA DEVELOPER:**

\_\_\_\_\_  
a(n) \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## ATTACHMENT B

### DEVELOPMENT SCHEDULE

1. The termination date of this Agreement shall be the earlier of the date the Development Schedule is complete or \_\_\_\_\_, 20\_\_\_\_.
2. Development Schedule:

Watermill Express Station	Franchise Agreement Execution Deadline
1	Date of execution of Area Development Agreement
2	
3	
4	
5	
6	
7	
8	
9	
10	
10+	

**WEF:**

**WATERMILL EXPRESS FRANCHISING, LLC**  
a Colorado limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AREA DEVELOPER:**

\_\_\_\_\_  
a(n) \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ATTACHMENT C**

**STATEMENT OF SHAREHOLDERS/  
MEMBERS/PARTNERS**

The shareholders, members, or partners (collectively the “Shareholders”) of the Area Developer and their respective shareholdings are as follows:

<u>Name of Shareholder</u>	<u>Number and Designation of Shares</u>	<u>Ownership Percentage</u>
----------------------------	---	-----------------------------

**AREA DEVELOPER:**

a(n) \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**EXHIBIT D**

**FINANCIAL STATEMENTS**

Watermill Express Franchising, LLC  
For the Three Months Ending March 31, 2019  
UNAUDITED

	<u>2019</u>	<u>2018</u>
<b>Assets:</b>		
Cash	(\$4,794)	
A/R-Royalties & Fees	36,809	34,064
Franchise Costs	73,500	73,500
	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<b><u><u>\$105,515</u></u></b>	<b><u><u>\$107,564</u></u></b>
 <b>Liabilities &amp; Stockholders' Equity:</b>		
Deferred Franchise Fees	105,000	105,000
A/P-WME,LLC	0	10
	<u>          </u>	<u>          </u>
<b>Total Liabilities</b>	<b><u><u>105,000</u></u></b>	<b><u><u>105,010</u></u></b>
 Member Capital WME, LLC	1,000	1,000
Member Distributions	(160,590)	(136,342)
Retained Earnings	(3,150)	(7,983)
Current Period Net Income	163,255	145,879
	<u>          </u>	<u>          </u>
<b>Total Stockholders' Equity</b>	<b><u><u>515</u></u></b>	<b><u><u>2,554</u></u></b>
 <b>Total Liabilities &amp; Stockholders' Equity</b>	<b><u><u>\$105,515</u></u></b>	<b><u><u>\$107,564</u></u></b>

Watermill Express Franchising, LLC  
For the Three Months Ending March 31, 2019  
UNAUDITED

	2019		2018	
	MTD	YTD	MTD	YTD
<b>Income</b>				
Franchise Royalties	69,911	195,012	63,510	180,180
<b>Total Income</b>	<b>69,911</b>	<b>195,012</b>	<b>63,510</b>	<b>180,180</b>
<b>Expenses</b>				
Management Services	6,991	19,501	6,354	18,027
Accounting/Auditing	500	3,000	3,000	3,000
Bank Charges	73	214	73	217
Consulting / Contract Labor	499	1,497	499	1,497
Dues & Subscriptions	0	0	0	5,844
Legal	3,795	7,545	1,750	5,250
Travel expense	0	0	466	466
<b>Total Expenses</b>	<b>11,858</b>	<b>31,757</b>	<b>12,142</b>	<b>34,301</b>
<b>Net Operating Income</b>	<b>58,053</b>	<b>163,255</b>	<b>51,368</b>	<b>145,879</b>
<b>Net Income</b>	<b>\$58,053</b>	<b>\$163,255</b>	<b>\$51,368</b>	<b>\$145,879</b>

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# Watermill Express Franchising, LLC

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**Financial Report**  
**December 31, 2018**

<b>Independent Auditor's Report</b>	1
<b>Financial Statements</b>	
Balance Sheet	2
Statement of Operations	3
Statement of Members' Deficit	4
Statement of Cash Flows	5
Notes to Financial Statements	6-8

## Independent Auditor's Report

To the Board of Directors and Member  
Watermill Express Franchising, LLC

We have audited the accompanying financial statements of Watermill Express Franchising, LLC (the "Company"), which comprise the balance sheet as of December 31, 2018 and the related statements of operations, members' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watermill Express Franchising, LLC as of December 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Prior Year Financial Statements**

The financial statements of Watermill Express Franchising, LLC as of and for the years ended December 31, 2017 and 2016 were audited by EKS&H LLLP, whose report dated March 12, 2018 expressed an unqualified opinion on those statements.

*Plante & Moran, PLLC*

March 29, 2019

## Watermill Express Franchising, LLC

### Balance Sheet

December 31, 2018, 2017, and 2016

	2018	2017	2016
<b>Assets</b>			
<b>Current Assets</b> - Royalties receivable	\$ 29,350	\$ 26,267	\$ 35,758
<b>Deferred Franchise Costs</b> - Net	73,500	73,500	84,000
Total assets	<u><u>\$ 102,850</u></u>	<u><u>\$ 99,767</u></u>	<u><u>\$ 119,758</u></u>
<b>Liabilities and Members' Deficit</b>			
<b>Current Liabilities</b>			
Checks issued in excess of bank balance	\$ -	\$ -	\$ 5,600
Accrued expenses	-	1,750	-
Deferred franchise revenue - Current portion	30,000	30,000	30,000
Total current liabilities	30,000	31,750	35,600
<b>Deferred Franchise Revenue</b> - Less current portion	75,000	75,000	90,000
Total liabilities	105,000	106,750	125,600
<b>Members' Deficit</b>	(2,150)	(6,983)	(5,842)
Total liabilities and members' deficit	<u><u>\$ 102,850</u></u>	<u><u>\$ 99,767</u></u>	<u><u>\$ 119,758</u></u>

## Watermill Express Franchising, LLC

### Statement of Operations

Years Ended December 31, 2018, 2017, and 2016

	2018	2017	2016
<b>Revenue</b>			
Royalties	\$ 846,264	\$ 786,172	\$ 802,512
Franchise fees	-	68,000	30,000
Total revenue	846,264	854,172	832,512
<b>Operating Expenses</b> - General and administrative	124,023	146,465	178,201
<b>Net Income</b>	<b>\$ 722,241</b>	<b>\$ 707,707</b>	<b>\$ 654,311</b>



## Watermill Express Franchising, LLC

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### Statement of Members' Deficit

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Years Ended December 31, 2018, 2017, and 2016

	General Members' Interest
<b>Balance</b> - January 1, 2016	\$ 110
Net income	654,311
Distributions to member	<u>(660,263)</u>
<b>Balance</b> - December 31, 2016	(5,842)
Net income	707,707
Distributions to member	<u>(708,848)</u>
<b>Balance</b> - December 31, 2017	(6,983)
Net income	722,241
Distributions to member	<u>(717,408)</u>
<b>Balance</b> - December 31, 2018	<u><u>\$ (2,150)</u></u>

## Statement of Cash Flows

**Years Ended December 31, 2018, 2017, and 2016**

	2018	2017	2016
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 722,241	\$ 707,707	\$ 654,311
Adjustments to reconcile net income to net cash from operating activities:			
Amortization	-	10,500	21,000
Deferred franchise revenue	-	(15,000)	120,000
Deferred franchise costs	-	-	(105,000)
Change in royalties receivable	(3,083)	9,491	(28,946)
Change in accrued expenses	(1,750)	1,750	(4,548)
Net cash provided by operating activities	717,408	714,448	656,817
<b>Cash Flows from Financing Activities</b>			
Checks written off in excess of bank balance	-	(5,600)	3,446
Distributions to member	(717,408)	(708,848)	(660,263)
Net cash used in financing activities	(717,408)	(714,448)	(656,817)
<b>Net Change in Cash</b>	-	-	-
<b>Cash - Beginning of year</b>	-	-	-
<b>Cash - End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**December 31, 2018 and 2017****Note 1 - Nature of Business**

Watermill Express Franchising, LLC (the "Company") was organized on December 4, 2003 in the state of Colorado. The Company is a limited liability company and a wholly owned subsidiary of Watermill Express, LLC (the "Parent"). Because of this affiliation, the Company receives certain administrative services and other benefits from the Parent. Accordingly, this affiliation and other related party disclosures must be taken into consideration in viewing the accompanying financial statements.

The Company is primarily engaged in the business of franchising Watermill stations. Franchises are sold with rights to develop one or more stations in a specific territory. The Company had 10 franchise agreements as of December 31, 2018, 2017, and 2016.

The following table summarizes the number of stations in operation at December 31, 2018, 2017, and 2016:

	2018	2017	2016
Franchise stations	313	311	306
Company owned	969	983	994
Total stations in operation	1,282	1,294	1,300

**Note 2 - Significant Accounting Policies*****Concentrations of Credit Risk***

The Company grants credit in the normal course of business to franchisees. To reduce credit risk for franchisees, the Company continually monitors each franchisee's financial position and reserves the right to terminate franchise agreements for nonpayment of amounts owed.

***Deferred Franchise Costs***

Deferred franchise costs represent costs related to renewing existing franchise agreements, which are being amortized in proportion to the recognition of franchise fee revenue. During the years ended December 31, 2018, 2017, and 2016, the Company did not execute any new franchise agreements.

***Franchise Fees***

Franchise fees paid by franchisees are deferred and recognized as revenue when all material services and conditions required to be performed by the Company have been substantially completed. Franchise fees collected by the Company before all material services and conditions are substantially performed are recorded as deferred revenue. These franchise fees are nonrefundable.

***Royalties***

Pursuant to existing franchise agreements, franchisees are required to pay the Company royalties based on a percentage of gross sales escalating from 0 to 7 percent. These fees are included in royalties receivable and are collected monthly.

***Royalties Receivable***

At the time the royalties receivable are originated, the Company considers a reserve for doubtful accounts based on the creditworthiness of the franchisee. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. As of December 31, 2018, 2017, and 2016, the Company determined that no allowance was necessary.

**December 31, 2018 and 2017**

**Note 2 - Significant Accounting Policies (Continued)**

***Brand Fund***

The Company has the right to collect a brand fee of up to 2 percent of gross sales per month, in accordance with certain franchise agreements, to be used primarily for advertising and marketing the Watermill stations.

***Management Agreement***

The Company has entered into a management agreement with the Parent in which the Company is charged approximately 10 percent of its royalty fees as an administrative fee. Amounts paid under this management agreement for the years ended December 31, 2018, 2017, and 2016 were \$84,636, \$78,640, and \$80,251, respectively, and are recorded in general and administrative expense.

***Income Taxes***

The Company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by the Company. Members are taxed individually on their pro rata ownership share of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the Company's operating agreement.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Upcoming Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Company is continuing to evaluate the provisions of this new guidance and has not yet determined the impact this standard may have on its financial condition, results of operations, cash flows, and related disclosures or decided upon method of adoption.

**December 31, 2018 and 2017****Note 2 - Significant Accounting Policies (Continued)**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets, including the Company's loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Company's year ending December 31, 2021. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other than temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company feels its implementation of this standard will not have a significant impact on the Company's financial statements.

**Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including March 29, 2019, which is the date the financial statements were available to be issued.

**Note 3 - Deferred Franchise Costs**

Deferred franchise costs are summarized as follows:

	2018	2017	2016
Deferred franchise costs	\$ 105,000	\$ 105,000	\$ 105,000
Less accumulated amortization	(31,500)	(31,500)	(21,000)
Total	<u>\$ 73,500</u>	<u>\$ 73,500</u>	<u>\$ 84,000</u>

**EXHIBIT E**

**LIST OF CURRENT AND FORMER FRANCHISEES/AREA DEVELOPERS**

## **Current Franchisees as of December 31, 2018**

### **Arizona – Phoenix**

Marcus Tork/Tom Thies  
Clearly Water, Ltd.  
2310 W. Mission Lane, Suite 6  
Phoenix, AZ 85021  
(602) 864-7701  
(107 Units)

### **California – Central Valley**

Kenneth Talmage  
Monterey Water Company  
1158 S. Main Street, Manteca, CA. 95337  
209-239-3117  
(106 Units)

### **Illinois**

Pradeep Reddy and Bindu Kotrakona  
Patterson Industries, LLC  
611 S. Deer Lake Drive West  
Carbondale, IL 62901  
(3 Units)

### **Ohio – Bowling Green**

Fite Laundries  
993 South Main  
Bowling Green, Ohio 43402  
(419) 353-8206  
(1 Unit)

### **Texas – West Houston**

Kim Moore  
CAP-MOR, Corp  
9301 SW Freeway, Suite 250  
Houston, TX 77074  
(713) 772-6277  
(96 Units)

**List of Former Franchisees**

**NONE**

**List of Franchisees Signed but Not Opened As of December 31, 2017**

**NONE**



**EXHIBIT F**

**STATE ADDENDA  
AND AGREEMENT RIDERS**

## STATE ADDENDA AND AGREEMENT RIDERS

### ADDENDUM TO FRANCHISE AGREEMENT, AREA DEVELOPMENT AGREEMENT, SUPPLEMENTAL AGREEMENTS, AND FRANCHISE AGREEMENT DISCLOSURE DOCUMENT FOR CERTAIN STATES FOR WATERMILL EXPRESS FRANCHISING, LLC

The following modifications are made to the Watermill Express Franchising, LLC (“**Franchisor**,” “**us**,” “**we**,” or “**our**”) Franchise Disclosure Document (“**FDD**”) given to Franchisee (“**Franchisee**,” “**you**,” or “**your**”) and may supersede, to the extent then required by valid applicable state law, certain portions of the Franchise Agreement between you and us dated \_\_\_\_\_, 20\_\_ (“**Franchise Agreement**”).

The following states laws may supersede provisions of the Franchise Agreement, including the areas of termination and renewal of your Franchise: ARKANSAS (Stat. Section 70-807), CALIFORNIA (Bus. & Prof. Code Sections 20000-20043), CONNECTICUT (Gen. Stat. Section 42-133e et seq.), DELAWARE (Code, Tit. 6, Ch. 25, Sections 2551-2556), HAWAII (Rev. Stat. Section 482E-1), ILLINOIS (815 ILCS 705/1-44), INDIANA (Stat. Sections 23-2-2.7 and 23-2-2.5), IOWA (Code Sections 523H.1-523H.17), MARYLAND (MD. CODE ANN., BUS. REG. §§14-201 TO 14-233 (2004 Repl. Vol.)), MICHIGAN (Stat. Section 19.854(27)), MINNESOTA (Stat. Section 80C.14), MISSISSIPPI (Code Section 75-24-51), MISSOURI (Stat. Section 407.400), NEBRASKA (Rev. Stat. Section 87-401), NEW JERSEY (Stat. Section 56:10-1), SOUTH DAKOTA (Codified Laws Section 37-5B), VIRGINIA (§§ 13.1-557 through 13.1-574 of the Code of Virginia), WASHINGTON (Code Section 19.100.180), WISCONSIN (Stat. Section 135.03).

Depending on state law, the provisions of this State-Specific Addendum (“**State Addendum**”) may apply to modify the FDD that was given to you, as well as the Franchise Agreement, Area Development Agreement, and any applicable Addenda, Exhibits, Appendices, or mutually-agreed modifications thereto. Specifically, this State Addendum will apply to your Franchise Agreement only if the jurisdictional requirements of a listed state’s laws are met independently and without reference to this Addendum, to the Franchise Agreement, or to the FDD. For purposes of the State Addendum, the “**Franchisor’s Choice of Law State**” is Colorado and “**Supplemental Agreements**” means N/A. If any inconsistency arises between the Franchise Agreement, FDD, Area Development Agreement, or Supplemental Agreements and this State Addendum, the terms of this State Addendum shall control. Nothing in this State Addendum, the FDD, Franchise Agreement, Area Development Agreement, or Supplemental Agreements should be interpreted or construed as providing an independent basis for Franchisee’s assertion that any particular state law or provision applies to the FDD, Franchise Agreement, Area Development Agreement, or Supplemental Agreements that would not otherwise apply due to the jurisdictional requirements of such state law or provision.

#### CALIFORNIA

The California Franchise Investment Law requires a copy of all proposed agreements relating to the sale of the Franchise be delivered together with the FDD.

California Corporations Code Section 31125 requires us to give to you a FDD approved by the Department of Business Oversight before we ask you to consider a material modification of your Franchise Agreement.

The Franchise Agreement and Supplemental Agreements require the application of the Franchisor’s Choice of Law State. This provision may not be enforceable under California law.

Neither Franchisor nor any other person listed in Item 2 of the FDD is subject to any currently effective order of any national securities association or national securities exchange, as defined in the

Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or non-renewal of a franchise. If the Franchise Agreement or Supplemental Agreements contain a provision that is inconsistent with the California Franchise Investment Law, the California Franchise Investment Law will control.

The Franchise Agreement and Supplemental Agreements may provide for termination upon bankruptcy. Any such provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. SEC. 101 et seq.).

The Franchise Agreement contains, and if applicable, the Supplemental Agreements may contain, a covenant not to compete provision which extends beyond the termination of the Franchise. Such provisions may not be enforceable under California law.

Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable. Any such provisions contained in the Franchise Agreement or Supplemental Agreements may not be enforceable.

The Supplemental Agreements may contain, provisions requiring binding arbitration. The arbitration will occur at Franchisor's Choice of Law State. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of the Franchise Agreement or Supplemental Agreements restricting venue to a form outside the State of California. The parties shall each bear their own costs of mediation and shall share equally the filing fee and the mediator's fees.

You must sign a general release of claims if you renew or transfer your Franchise. California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

Franchisee, for itself and themselves, and on behalf of its constituents, acknowledge that it is familiar with Section 1542 of the California Civil Code, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Our website has not been reviewed or approved by the California Department of Business Oversight. Any complaints concerning the content of this website may be directed to the California Department of Business Oversight at "www.dbo.ca.gov."

## **HAWAII**

The following is added to the Cover Page:

**THIS FRANCHISE WILL BE/HAS BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED IN THIS FRANCHISE DISCLOSURE DOCUMENT IS TRUE, COMPLETE AND NOT MISLEADING.**

**THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO YOU OR SUBFRANCHISOR AT LEAST SEVEN (7) DAYS PRIOR TO THE EXECUTION BY YOU OR SUBFRANCHISOR OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN (7) DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY YOU, WHICHEVER OCCURS FIRST, A COPY OF THE FRANCHISE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.**

**THIS FRANCHISE DISCLOSURE DOCUMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH US AND YOU.**

Registered agent in the state authorized to receive service of process:

Commissioner of Securities of the State of Hawaii  
Department of Commerce and Consumer Affairs  
Business Registration Division  
335 Merchant Street, Room 203  
Honolulu, Hawaii 96813

The following list reflects the status of the Franchise registrations of the Franchisor in the states which require registration:

1. This proposed registration is effective in the following states:
2. This proposed registration is or will shortly be on file in the following states:
3. States which have refused, by order or otherwise, to register these Franchises are:  
  
None

4. States which have revoked or suspended the right to offer the Franchises are:
- None
5. States in which the proposed registration of these Franchises has been withdrawn are:
- None

## **ILLINOIS**

Sections 4 and 41 and Rule 608 of the Illinois Franchise Disclosure Act states that court litigation must take place before Illinois federal or state courts and all dispute resolution arising from the terms of this Agreement or the relationship of the parties and conducted through arbitration or litigation shall be subject to Illinois law. The FDD, Franchise Agreement, Area Development Agreement, and Supplemental Agreements are amended accordingly.

The governing law or choice of law clause described in the FDD and contained in the Franchise Agreement, Area Development Agreement, and Supplemental Agreements is not enforceable under Illinois law. This governing law clause shall not be construed to negate the application of Illinois law in all situations to which it is applicable.

Section 41 of the Illinois Franchise Disclosure Act states that “any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act or any other law of this State is void.” The Franchise Agreement and Area Development Agreement are amended accordingly. To the extent that the Franchise Agreement and Area Development Agreement would otherwise violate Illinois law, such Agreements are amended by providing that all litigation by or between you and us, arising directly or indirectly from the Franchise relationship, will be commenced and maintained in the state courts of Illinois or, at our election, the United States District Court for Illinois, with the specific venue in either court system determined by appropriate jurisdiction and venue requirements, and Illinois law will pertain to any claims arising under the Illinois Franchise Disclosure Act.

Items 5 of the Franchise Disclosure Document and Section 10 of the Franchise Agreement, are revised as follows:

The initial franchise fee shall be deferred until the franchisee has (a) received all initial training that is required under the Franchise Agreement or the Franchise Disclosure Document and (b) is open for business. The Illinois Attorney General’s Office imposed this deferral requirement due to Franchisor’s financial condition.

Item 17.v, Choice of Forum, of the FDD is revised to include the following: “provided, however, that the foregoing shall not be considered a waiver of any right granted upon you by Section 4 of the Illinois Franchise Disclosure Act.”

Item 17.w, Choice of Law, of the FDD is revised to include the following: “provided, however, that the foregoing shall not be considered a waiver of any right granted upon you by Section 4 of the Illinois Franchise Disclosure Act”.

The termination and non-renewal provisions in the Franchise Agreement, Area Development Agreement, and the FDD may not be enforceable under Sections 19 and 20 of the Illinois Franchise Disclosure Act.

Section 18.1 of the Franchise Agreement is revised to delete the following language: “or the claims of negligent or fraudulent misrepresentation”.

Section 18.1 of the Franchise Agreement is revised to include the following: “Nothing in this or any related agreement, however, is intended to disclaim the representations we made in the franchise disclosure document that we furnished you.”

Under Section 705/27 of the Illinois Franchise Disclosure Act, no action for liability under the Illinois Franchise Disclosure Act can be maintained unless brought before the expiration of three (3) years after the act or transaction constituting the violation upon which it is based, the expiration of one (1) year after you become aware of facts or circumstances reasonably indicating that you may have a claim for relief in respect to conduct governed by the Act, or 90 days after delivery to you of a written notice disclosing the violation, whichever shall first expire. To the extent that the Franchise Agreement and Area Development Agreement are inconsistent with the Illinois Franchise Disclosure Act, Illinois law will control and supersede any inconsistent provision(s).

## **INDIANA**

Item 13 of the FDD is amended to add the following:

Under Indiana Code Section 23-2-2.7-1(4), we will not accept any rebates from any person with whom you do business or associate in relation to transactions between you and the other person, other than for compensation for services rendered by us, unless the rebate is properly accounted for and submitted to you.

Item 17 of the FDD is amended to add the following:

Indiana Code 23-2-2.7-1(7) makes it unlawful for us to unilaterally terminate your Franchise Agreement unless there is a material violation of the Franchise Agreement and termination is not in bad faith.

Indiana Code 23-2-2.7-1(5) prohibits us to require you to agree to a prospective general release of claims subject to the Indiana Deceptive Franchise Practices Act.

The “Summary” column in Item 17.r. of the FDD is deleted and the following is inserted in its place:

No competing business for two (2) years within the Territory.

The “Summary” column in Item 17.t. of the FDD is deleted and the following is inserted in its place:

Notwithstanding anything to the contrary in this provision, you do not waive any right under the Indiana Statutes with regard to prior representations made by us.

The “Summary” column in Item 17.v. of the FDD is deleted and the following is inserted in its place:

Litigation regarding Franchise Agreement in Indiana; other litigation in the Franchisor’s Choice of Law State. This language has been included in this Franchise Disclosure Document as a condition to registration. The Franchisor and the Franchisee do not agree with the above language and believe that each of the provisions of the Franchise Agreement, including all venue provisions, is fully enforceable. The Franchisor and the Franchisee intend to fully enforce all of the provisions of the Franchise Agreement and all other documents signed by them, including but not limited to, all venue, choice-of-law, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

The “Summary” column in Item 17.w. of the FDD is deleted and the following is inserted in its place:

Indiana law applies to disputes covered by Indiana franchise laws; otherwise Franchisor’s Choice of Law State law applies.

Despite anything to the contrary in the Franchise Agreement, the following provisions will supersede and apply to all Franchises offered and sold in the State of Indiana:

1. The laws of the State of Indiana supersede any provisions of the FDD, the Franchise Agreement, or Franchisor’s Choice of Law State law, if such provisions are in conflict with Indiana law.
2. The prohibition by Indiana Code 23-2-2.7-1(7) against unilateral termination of the Franchise without good cause or in bad faith, good cause being defined under law as including any material breach of the Franchise Agreement, will supersede the provisions of the Franchise Agreement relating to termination for cause, to the extent those provisions may be inconsistent with such prohibition.
3. Any provision in the Franchise Agreement that would require you to prospectively assent to a release, assignment, novation, waiver or estoppel which purports to relieve any person from liability imposed by the Indiana Deceptive Franchise Practices Law is void to the extent that such provision violates such law.
4. The covenant not to compete that applies after the expiration or termination of the Franchise Agreement for any reason modified to the extent necessary to comply with Indiana Code 23-2-2.7-1 (9).
5. The following provision will be added to the Franchise Agreement:

No Limitation on Litigation. Despite the foregoing provisions of this Agreement, any provision in the Agreement which limits in any manner whatsoever litigation brought for breach of the Agreement will be void to the extent that any such contractual provision violates the Indiana Deceptive Franchise Practices Law.

## **MARYLAND**

### **AMENDMENTS TO FRANCHISE DISCLOSURE DOCUMENT, FRANCHISE AGREEMENTS AND SUPPLEMENTAL AGREEMENTS**

Item 17 of the FDD and the Franchise Agreement are amended to state: “The general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.”

Representations in the Franchise Agreement and Supplemental Agreements are not intended to, nor shall they act as, a release, estoppel, or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

Item 17 of the FDD and sections of the Franchise Agreement and Supplemental Agreements are amended to state that you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the Franchise.

The Franchise Agreement and franchisee questionnaire are amended to state that all representations requiring prospective franchisees to assent to a release, estoppel, or waiver of liability are not intended to, nor shall they act as, a release, estoppel, or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law (11 U.S.C.A Sec. 101 et seq.).

## **MICHIGAN**

**THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.**

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- (a) A prohibition on your right to join an association of franchisees.
- (b) A requirement that you assent to a release, assignment, novation, waiver, or estoppel which deprives you of rights and protections provided in this act. This shall not preclude you, after entering into a Franchise Agreement, from settling any and all claims.
- (c) A provision that permits us to terminate a Franchise prior to the expiration of its term except for good cause. Good cause shall include your failure to comply with any lawful provision of the Franchise Agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits us to refuse to renew your Franchise without fairly compensating you by repurchase or other means for the fair market value at the time of expiration of your inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to us and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the Franchise business are not subject to compensation. This subsection applies only if: (i) the term of the Franchise is less than five (5) years; and (ii) you are prohibited by the Franchise Agreement or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the Franchise or you do not receive at least six (6) months' advance notice of our intent not to renew the Franchise.
- (e) A provision that permits us to refuse to renew a Franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside the State of Michigan. This shall not preclude you from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits us to refuse to permit a transfer of ownership of a Franchise, except for good cause. This subdivision does not prevent us from exercising a right of first refusal to purchase the Franchise. Good cause shall include, but is not limited to:



(i) the failure of the proposed transferee to meet our then-current reasonable qualifications or standards.

(ii) the fact that the proposed transferee is a competitor of us or our subfranchisor.

(iii) the unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) your or proposed transferee's failure to pay any sums owing to us or to cure any default in the Franchise Agreement existing at the time of the proposed transfer.

(h) A provision that requires you to resell to us items that are not uniquely identified with us. This subdivision does not prohibit a provision that grants to us a right of first refusal to purchase the assets of a Franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants us the right to acquire the assets of a Franchise for the market or appraised value of such assets if you have breached the lawful provisions of the Franchise Agreement and have failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits us to directly or indirectly convey, assign, or otherwise transfer our obligations to fulfill contractual obligations to you unless provision has been made for providing the required contractual services.

**THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.**

Any questions regarding this notice should be directed to:

State of Michigan  
Department of Attorney General  
Consumer Protection Division  
Attn: Franchise  
670 Law Building  
525 W. Ottawa Street  
Lansing, Michigan 48913  
Telephone Number: (517) 373-7117

## **MINNESOTA**

Despite anything to the contrary in the Franchise Agreement, the following provisions will supersede and apply to all Franchises offered and sold in the State of Minnesota:

1. Any provision in the Franchise Agreement which would require you to assent to a release, assignment, novation or waiver that would relieve any person from liability imposed by Minnesota Statutes, Sections 80C.01 to 80C.22 will be void to the extent that such contractual provision violates such law.
2. Minnesota Statute Section 80C.21 and Minnesota Rule 2860.4400J prohibit the franchisor from requiring litigation to be conducted outside of Minnesota. In addition, nothing in the FDD or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of Minnesota.

3. Minn. Rule Part 2860.4400J. prohibits a franchisee from waiving his rights to a jury trial or waiving his rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or consenting to liquidated damages, termination penalties or judgment notes. Any provision in the Franchise Agreement which would require you to waive your rights to any procedure, forum or remedies provided for by the laws of the State of Minnesota is deleted from any agreement relating to Franchises offered and sold in the State of Minnesota; provided, however, that this paragraph will not affect the obligation in the Franchise Agreement relating to arbitration.
4. With respect to Franchises governed by Minnesota law, we will comply with Minnesota Statute Section 80C.14, Subds. 3, 4 and 5, which require, except in certain specified cases, that you be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Franchise Agreement; and that consent to the transfer of the Franchise will not be unreasonably withheld.
5. Item 13 of the FDD is hereby amended to state that we will protect your rights under the Franchise Agreement to use the Marks, or indemnify you from any loss, costs, or expenses arising out of any third-party claim, suit or demand regarding your use of the Marks, if your use of the Marks is in compliance with the provisions of the Franchise Agreement and our System standards.
6. Minnesota Rule 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release. As a result, the FDD and the Franchise Agreement, which require you to sign a general release prior to renewing or transferring your Franchise, are hereby deleted from the Franchise Agreement, to the extent required by Minnesota law.
7. The following language will appear as a new paragraph of the Franchise Agreement:

No Abrogation. Pursuant to Minnesota Statutes, Section 80C.21, nothing in the dispute resolution section of this Agreement will in any way abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80.C.
8. Minnesota Statute Section 80C.17 states that no action for a violation of Minnesota Statutes, Sections 80C.01 to 80C.22 may be commenced more than three (3) years after the cause of action accrues. To the extent that the Franchise Agreement conflicts with Minnesota law, Minnesota law will prevail.

## **NEW YORK**

1. The following information is added to the cover page of the Franchise Disclosure Document:

**INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NYS DEPARTMENT OF LAW**

**INVESTOR PROTECTION BUREAU, 28 LIBERTY STREET, 21<sup>st</sup> FLOOR, NEW YORK, NY 10005, 212-416-8236.**

**THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.**

2. The following is added at the end of Item 3:

Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

- A. No such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.
- B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.
- C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.
- D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

3. The following is added to the end of Item 4:

Neither the franchisor, its affiliate, its predecessor, officers, or general partner during the 10-year period immediately before the date of the offering circular: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S.

Bankruptcy Code during or within 1 year after that officer or general partner of the franchisor held this position in the company or partnership.

4. The following is added to the end of Item 5:

The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.

5. The following is added to the end of the “Summary” sections of Item 17(c), titled **“Requirements for franchisee to renew or extend,”** and Item 17(m), entitled **“Conditions for franchisor approval of transfer”**:

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

6. The following language replaces the “Summary” section of Item 17(d), titled **“Termination by franchisee”**:

You may terminate the agreement on any grounds available by law.

7. The following is added to the end of the “Summary” section of Item 17(j), titled **“Assignment of contract by franchisor”**:

However, no assignment will be made except to an assignee who in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor’s obligations under the Franchise Agreement.

8. The following is added to the end of the “Summary” sections of Item 17(v), titled **“Choice of forum”**, and Item 17(w), titled **“Choice of law”**:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.

## **NORTH DAKOTA**

Sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring that you sign a general release, estoppel or waiver as a condition of renewal and/or assignment may not be enforceable as they relate to releases of the North Dakota Franchise Investment Law.

Sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring resolution of disputes to be outside North Dakota may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Sections of the FDD, the Franchise Agreement, and the Supplemental Agreements relating to choice of law may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Any sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring you to consent to liquidated damages and/or termination penalties may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Any sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring you to consent to a waiver of trial by jury may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Any sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring you to consent to a waiver of exemplary and punitive damages may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Item 17(r) of the FDD and Section 7 of the Franchise Agreement disclose the existence of certain covenants restricting competition to which Franchisee must agree. The Commissioner has held that covenants restricting competition contrary to Section 9-08-06 of the North Dakota Century Code, without further disclosing that such covenants may be subject to this statute, are unfair, unjust, or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law. The FDD and the Franchise Agreement are amended accordingly to the extent required by law.

## **OHIO**

The following language will be added to the front page of the Franchise Agreement:

You, the purchaser, may cancel this transaction at any time prior to midnight of the fifth business day after the date you sign this agreement. See the attached notice of cancellation for an explanation of this right.

Initials \_\_\_\_\_ Date \_\_\_\_\_

### **NOTICE OF CANCELLATION**

\_\_\_\_\_ (enter date of transaction)

You may cancel this transaction, without penalty or obligation, within five (5) business days from the above date. If you cancel, any payments made by you under the agreement, and any negotiable instrument executed by you will be returned within ten (10) business days following the seller's receipt of your cancellation notice, and any security interest arising out of the transaction will be cancelled. If you cancel, you must make available to the seller at your business address all goods delivered to you under this agreement; or you may, if you wish, comply with the instructions of the seller regarding the return shipment of the goods at the seller's expense and risk. If you do make the goods available to the seller and the seller does not pick them up within 20 days of the date of your notice of cancellation, you may retain or dispose of them without further obligation. If you fail to make the goods available to the seller, or if you agree to return them to the seller and fail to do so, then you remain liable for the performance of all obligations under this agreement. To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice or any other written notice to Watermill Express Franchising, LLC, 1177 South Fourth Avenue, Brighton, CO 80601, or send a fax to Watermill Express Franchising, LLC at (303) 659-1635 not later than midnight of the fifth business day after the Effective Date.

I hereby cancel this transaction.

Franchisee:

Date: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Its: \_\_\_\_\_

## **RHODE ISLAND**

§ 19-28.1-14 of the Rhode Island Franchise Investment Act provides that “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.” The FDD, the Franchise Agreement, and the Supplemental Agreements are amended accordingly to the extent required by law.

The above language has been included in this FDD as a condition to registration. The Franchisor and the Franchisee do not agree with the above language and believe that each of the provisions of the Franchise Agreement and the Supplemental Agreements, including all choice of law provisions, are fully enforceable. The Franchisor and the Franchisee intend to fully enforce all of the provisions of the Franchise Agreement, the Supplemental Agreements, and all other documents signed by them, including but not limited to, all venue, choice-of-law, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

## **SOUTH DAKOTA**

Intentionally left blank.

## **VIRGINIA**

Item 17(h). The following is added to Item 17(h):

“Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to use undue influence to induce a franchisee to surrender any right given to him under the franchise. If any provision of the Franchise Agreement or Supplemental Agreements involve the use of undue influence by the Franchisor to induce a franchisee to surrender any rights given to franchisee under the Franchise, that provision may not be enforceable.”

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the FDD for Watermill Express Franchising, LLC for use in the Commonwealth of Virginia shall be amended as follows:

Additional Disclosure. The following statements are added to Item 8 and Item 17.h.

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement does not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

## **WASHINGTON**

The state of Washington has a statute, RCW 19.100.180, which may supersede the Franchise Agreement and Area Development Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your Franchise. The FDD, the Franchise Agreement and the Area Development Agreement are amended accordingly.

Items 5 of the Franchise Disclosure Document, is revised as follows:

“The initial franchise fee shall be deferred until the franchisee has (a) received all initial training that is required under the Franchise Agreement or the Franchise Disclosure Document and (b) is open for business. Because the Franchisor has material pre-opening

obligations with respect to each Franchised Business the franchisee opens under the Area Development Agreement, the State of Washington requires that the Area Development Fee be released proportionally with respect to each Franchised Business as each is opened.”

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the state of Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator. The FDD, the Franchise Agreement and the Area Development Agreement are amended accordingly.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail. The FDD, the Franchise Agreement and the Area Development Agreement are amended accordingly.

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable. The FDD, the Franchise Agreement and the Area Development Agreement are amended accordingly.

Transfer fees are collectable to the extent that they reflect the franchisor’s reasonable estimated or actual costs in effecting a transfer. The FDD, the Franchise Agreement and the Area Development Agreement are amended accordingly.

## **WISCONSIN**

The Wisconsin Fair Dealership Law, Chapter 135 of the Wisconsin Statutes supersedes any provision of the Franchise Agreement if such provision is in conflict with that law. The Franchise Disclosure Document, the Franchise Agreement and the Supplemental Agreements are amended accordingly.

### **APPLICABLE ADDENDA**

If any one of the preceding Addenda for specific states (“**Addenda**”) is checked as an “Applicable Addenda” below, then that Addenda shall be incorporated into the Franchise Disclosure Document, Franchise Agreement and any other specified agreement(s) entered into by us and the undersigned Franchisee. To the extent any terms of an Applicable Addenda conflict with the terms of the Franchise Disclosure Document, Franchise Agreement and other specified agreement(s), the terms of the Applicable Addenda shall supersede the terms of the Franchise Disclosure Document.

☐ California  
☐ Hawaii  
☐ Illinois  
☐ Indiana  
☐ Maryland

☐ Michigan  
☐ Minnesota  
☐ New York  
☐ North Dakota  
☐ Ohio

☐ Rhode Island  
☐ South Dakota  
☐ Virginia  
☐ Washington  
☐ Wisconsin

Dated: \_\_\_\_\_, 20\_\_\_\_

#### **FRANCHISOR:**

WATERMILL EXPRESS FRANCHISING, LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

#### **FRANCHISEE:**

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Rev. 042315



**EXHIBIT G**

**FRANCHISE OPERATIONS MANUAL  
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**WATERMILL EXPRESS  
FRANCHISE OPERATIONS MANUAL  
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## **EXHIBIT H**

### **CONTRACTS FOR USE WITH THE WATERMILL EXPRESS FRANCHISE**

The following contracts contained in **Exhibit H** are contracts that Franchisees and Area Developers are required to utilize or execute after signing the Franchise Agreement in the operation of the Watermill Express Station or Area Developer Franchise. The following are the forms of contracts that Watermill Express Franchising, LLC uses as of the Issuance Date of this Franchise Disclosure Document. If they are marked “Sample,” they are subject to change at any time.

## EXHIBIT H-1

### WATERMILL EXPRESS FRANCHISE

#### SAMPLE GENERAL RELEASE AGREEMENT (for Watermill Express Franchises)

#### **WAIVER AND RELEASE OF CLAIMS**

This Waiver and Release of Claims (the “**Release**”) is made as of \_\_\_\_\_, 20\_\_\_\_ by \_\_\_\_\_, a(n) \_\_\_\_\_ (“**Franchisee**”), and each individual holding an ownership interest in Franchisee (collectively with Franchisee, “**Releasor**”) in favor of Watermill Express Franchising, LLC, a Colorado limited liability company (“**Franchisor**,” and together with Releasor, the “**Parties**”).

**WHEREAS**, Franchisor and Franchisee have entered into a Franchise Agreement (the “**Agreement**”) pursuant to which Franchisee was granted the right to own and operate a Watermill Express franchise;

**WHEREAS**, Franchisee has notified Franchisor of its desire to transfer the Agreement and all rights related thereto, or an ownership interest in Franchisee, to a transferee (**enter into a successor franchise agreement**), and Franchisor has consented to such transfer (**agreed to enter into a successor franchise agreement**); and

**WHEREAS**, as a condition to Franchisor’s consent to the transfer (**Franchisee’s ability to enter into a successor franchise agreement**), Releasor has agreed to execute this Release upon the terms and conditions stated below.

**NOW, THEREFORE**, in consideration of Franchisor’s consent to the transfer (**Franchisor entering into a successor franchise agreement**), and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, and intending to be legally bound, Releasor hereby agrees as follows:

1. **Representations and Warranties.** Releasor represents and warrants that it is duly authorized to enter into this Release and to perform the terms and obligations herein contained, and has not assigned, transferred, or conveyed, either voluntarily or by operation of law, any of its rights or claims against Franchisor or any of the rights, claims, or obligations being terminated and released hereunder. The undersigned represents and warrants that he/she is duly authorized to enter into and execute this Release on behalf of Franchisee. Releasor further represents and warrants that all individuals that currently hold a direct or indirect ownership interest in Franchisee are signatories to this Release.

2. **Release.** Releasor and its subsidiaries, affiliates, parents, divisions, successors and assigns, and all persons or firms claiming by, through, under, or on behalf of any or all of them, hereby release, acquit, and forever discharge Franchisor, any and all of its affiliates, parents, subsidiaries, or related companies, divisions, and partnerships, and its and their past and present officers, directors, agents, partners, shareholders, employees, representatives, successors and assigns, and attorneys, and the spouses of such individuals (collectively, the “**Released Parties**”), from any and all claims, liabilities, damages, expenses, actions, or causes of action which Releasor may now have or has ever had, whether known or unknown, past or present, absolute or contingent, suspected or unsuspected, of any nature whatsoever, including without limiting the generality of the foregoing, all claims, liabilities, damages, expenses, actions, or causes of action directly or indirectly arising out of or relating to the execution and performance of the Agreement and the offer and sale of the franchise related thereto.

3. Nondisparagement. Releasor expressly covenants and agrees not to make any false representation of facts, or to defame, disparage, discredit, or deprecate any of the Released Parties or otherwise communicate with any person or entity in a manner intending to damage any of the Released Parties, their business, or their reputation.

4. Miscellaneous.

a. Releasor agrees that it has read and fully understands this Release and that the opportunity has been afforded to Releasor to discuss the terms and contents of said Release with legal counsel and/or that such a discussion with legal counsel has occurred.

b. This Release shall be construed and governed by the laws of the State of Colorado.

c. Each individual and entity that comprises Releasor shall be jointly and severally liable for the obligations of Releasor.

d. In the event that it shall be necessary for any Party to institute legal action to enforce or for the breach of any of the terms and conditions or provisions of this Release, the prevailing Party in such action shall be entitled to recover all of its reasonable costs and attorneys' fees.

e. All of the provisions of this Release shall be binding upon and inure to the benefit of the Parties and their current and future respective directors, officers, partners, attorneys, agents, employees, shareholders, and the spouses of such individuals, successors, affiliates, and assigns. No other party shall be a third-party beneficiary to this Release.

f. This Release constitutes the entire agreement and, as such, supersedes all prior oral and written agreements or understandings between and among the Parties regarding the subject matter hereof. This Release may not be modified except in a writing signed by all of the Parties. This Release may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same document.

g. If one or more of the provisions of this Release shall for any reason be held invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect or impair any other provision of this Release, but this Release shall be construed as if such invalid, illegal, or unenforceable provision had not been contained herein.

h. The Parties agree to do such further acts and things and to execute and deliver such additional agreements and instruments as any Party may reasonably require to consummate, evidence, or confirm the Release contained herein in the matter contemplated hereby.

*(Signatures on following page)*

**IN WITNESS WHEREOF**, Releasor has executed this Release as of the date first written above.

**FRANCHISEE:**

\_\_\_\_\_, a  
\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Date \_\_\_\_\_

**FRANCHISEE'S OWNERS:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Typed or Printed Name

## EXHIBIT H-2

### WATERMILL EXPRESS FRANCHISE

### SYSTEM PROTECTION AGREEMENT

This System Protection Agreement (this “**Agreement**”) is entered into by the undersigned (“**you**”) in favor of Watermill Express Franchising, LLC, a Colorado limited liability company, and its successors and assigns (“**us**”), upon the terms and conditions set forth in this Agreement.

**1. Definitions.** For purposes of this Agreement, the following terms have the meanings given to them below:

“**Competitive Business**” means any business that derives at least 50% of its revenue from operating water and/or ice vending machines. A Competitive Business does not include a Watermill Express Station operating pursuant to a franchise agreement with us.

“**Copyrights**” means all works and materials for which we or our affiliate have secured common law or registered copyright protection and that we allow franchisees to use, sell, or display in connection with the marketing and/or operation of a Watermill Express Station or the solicitation or offer of a Watermill Express franchise, whether now in existence or created in the future.

“**Franchisee**” means the Watermill Express franchisee for whom you are an officer, director, employee, or independent contractor.

“**Intellectual Property**” means, collectively or individually, our Marks, Copyrights, Know-how, and System.

“**Know-how**” means all of our trade secrets and other proprietary information relating to the development, construction, marketing, and/or operation of a Watermill Express Station, including, but not limited to, methods, techniques, specifications, proprietary practices and procedures, policies, marketing strategies, and information comprising the System and the Manual.

“**Manual**” means our confidential operations manual for the operation of a Watermill Express Station.

“**Marks**” means the logotypes, service marks, and trademarks now or hereafter involved in the operation of a Watermill Express Station, including “**WATERMILL EXPRESS**,” and any other trademarks, service marks, or trade names that we designate for use by a Watermill Express Station. The term “**Marks**” also includes any distinctive trade dress used to identify a Watermill Express Station, whether now in existence or hereafter created.

“**Prohibited Activities**” means any or all of the following: (i) owning, operating, or having any other interest (as an owner, partner, director, officer, employee, manager, consultant, shareholder, creditor, representative, agent, or in any similar capacity) in a Competitive Business (other than owning an interest of five percent (5%) or less in a publicly-traded company that is a Competitive Business); (ii) diverting or attempting to divert any business from us (or one of our affiliates or franchisees); and/or (iii) inducing: (a) any of our employees or managers (or those of our affiliates or franchisees) to leave their position; or (b) any customer of ours (or of one of our affiliates or franchisees) to transfer their business to you or to any other person that is not then a franchisee of ours.

“**Restricted Period**” means the two (2) year period after you cease to be a manager of Franchisee’s Watermill Express Station; provided, however, that if a court of competent jurisdiction determines that this period of time is too long to be enforceable, then the “**Restricted Period**” means the one (1) year period after you cease to be a manager or officer of Franchisee’s Watermill Express Station.

**“Restricted Territory”** means the geographic area within: (i) a 15-mile radius from Franchisee’s Watermill Express Station (and including the premises of the Watermill Express Station); and (ii) a 15-mile radius from all other Watermill Express Stations that are operating or under construction as of the beginning of the Restricted Period; provided, however, that if a court of competent jurisdiction determines that the foregoing Restricted Territory is too broad to be enforceable, then the **“Restricted Territory”** means the geographic area within a ten (10) mile radius from Franchisee’s Watermill Express Station (and including the premises of the Watermill Express Station).

**“System”** means our system for the establishment, development, operation, and management of a Watermill Express Station, including Know-how, proprietary programs and products, confidential operations manuals, and operating system.

**2. Background.** You are an officer, director, or manager of Franchisee. As a result of this relationship, you may gain knowledge of our System and Know-how. You understand that protecting the Intellectual Property is vital to our success and that of our franchisees and that you could seriously jeopardize our entire Franchise System if you were to unfairly compete with us. In order to avoid such damage, you agree to comply with the terms of this Agreement.

**3. Intellectual Property.** You agree: (i) you will not use the Know-how in any business or capacity other than the Watermill Express Station operated by Franchisee; (ii) you will maintain the confidentiality of the Know-how at all times; (iii) you will not make unauthorized copies of documents containing any Know-how; (iv) you will take such reasonable steps as we may ask of you from time to time to prevent unauthorized use or disclosure of the Know-how; and (v) you will stop using the Know-how immediately if you are no longer a manager of Franchisee’s Watermill Express Station. You further agree that you will not use the Intellectual Property for any purpose other than the performance of your duties for Franchisee and within the scope of your employment or other engagement with Franchisee.

**4. Unfair Competition During Relationship.** You agree not to unfairly compete with us at any time while you are a manager of Franchisee’s Watermill Express Station by engaging in any Prohibited Activities.

**5. Unfair Competition After Relationship.** You agree not to unfairly compete with us during the Restricted Period by engaging in any Prohibited Activities; provided, however, that the Prohibited Activity relating to having an interest in a Competitive Business will only apply with respect to a Competitive Business that is located within or provides competitive goods or services to customers who are located within the Restricted Territory. If you engage in any Prohibited Activities during the Restricted Period, then you agree that your Restricted Period will be extended by the period of time during which you were engaging in the Prohibited Activity.

**6. Immediate Family Members.** You acknowledge that you could circumvent the purpose of this Agreement by disclosing Know-how to an immediate family member (i.e., spouse, parent, sibling, child, or grandchild). You also acknowledge that it would be difficult for us to prove whether you disclosed the Know-how to family members. Therefore, you agree that you will be presumed to have violated the terms of this Agreement if any member of your immediate family: (i) engages in any Prohibited Activities during any period of time during which you are prohibited from engaging in the Prohibited Activities; or (ii) uses or discloses the Know-how. However, you may rebut this presumption by furnishing evidence conclusively showing that you did not disclose the Know-how to the family member.

**7. Covenants Reasonable.** You acknowledge and agree that: (i) the terms of this Agreement are reasonable both in time and in scope of geographic area; and (ii) you have sufficient resources and business experience and opportunities to earn an adequate living while complying with the terms of this Agreement. **YOU HEREBY WAIVE ANY RIGHT TO CHALLENGE THE TERMS OF THIS AGREEMENT AS BEING OVERLY BROAD, UNREASONABLE, OR OTHERWISE UNENFORCEABLE.**



**8. Breach.** You agree that failure to comply with the terms of this Agreement will cause substantial and irreparable damage to us and/or other Watermill Express franchisees for which there is no adequate remedy at law. Therefore, you agree that any violation of the terms of this Agreement will entitle us to injunctive relief. You agree that we may apply for such injunctive relief without bond, but upon due notice, in addition to such further and other relief as may be available at equity or law, and the sole remedy of yours in the event of the entry of such injunction will be the dissolution of such injunction, if warranted, upon hearing duly held (all claims for damages by reason of the wrongful issuance of any such injunction being expressly waived hereby). If a court requires the filing of a bond notwithstanding the preceding sentence, the parties agree that the amount of the bond shall not exceed \$1,000. None of the remedies available to us under this Agreement are exclusive of any other, but may be combined with others under this Agreement, or at law or in equity, including injunctive relief, specific performance, and recovery of monetary damages. Any claim, defense, or cause of action that you may have against us or against Franchisee, regardless of cause or origin, cannot be used as a defense against our enforcement of this Agreement.

**9. Miscellaneous.**

a. If we pursue legal remedies against you because you have breached this Agreement and prevail against you, you agree to pay our reasonable attorneys' fees and costs in doing so.

b. This Agreement will be governed by, construed, and enforced under the laws of Colorado, and the courts in that state shall have jurisdiction over any legal proceedings arising out of this Agreement.

c. Each section of this Agreement, including each subsection and portion thereof, is severable. If any section, subsection, or portion of this Agreement is unenforceable, it shall not affect the enforceability of any other section, subsection, or portion; and each party to this Agreement agrees that the court may impose such limitations on the terms of this Agreement as it deems in its discretion necessary to make such terms reasonable in scope, duration, and geographic area.

d. You and we both believe that the covenants in this Agreement are reasonable in terms of scope, duration, and geographic area. However, we may at any time unilaterally modify the terms of this Agreement upon written notice to you by limiting the scope of the Prohibited Activities, narrowing the definition of a Competitive Business, shortening the duration of the Restricted Period, reducing the geographic scope of the Restricted Territory, and/or reducing the scope of any other covenant imposed upon you under this Agreement to ensure that the terms and covenants in this Agreement are enforceable under applicable law.

EXECUTED on the date stated below.

Date \_\_\_\_\_

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Typed or Printed Name

**EXHIBIT H-3**

**AUTOMATED CLEARING HOUSE PAYMENT AUTHORIZATION FORM**

**Franchisee Information:**

Franchisee Name	Business No.
Franchisee Mailing Address (street)	Franchisee Phone No.
Franchisee Mailing Address (city, state, zip)	
Contact Name, Address and Phone number (if different from above)	
Franchisee Fax No.	Franchisee E-mail Address

**Bank Account Information:**

Bank Name		
Bank Mailing Address (street, city, state, zip)		
<input type="checkbox"/> Checking <input type="checkbox"/> Savings		
Bank Account No.	(check one)	Bank Routing No. (9 digits)
Bank Mailing Address (city, state, zip)	Bank Phone No.	

**Authorization:**

Franchisee hereby authorizes Watermill Express Franchising, LLC (“Franchisor”) to initiate debit entries to Franchisee’s account with the Bank listed above, and Franchisee authorizes the Bank to accept and to debit the amount of such entries to Franchisee’s account. Each debit shall be made from time to time in an amount sufficient to cover any fees payable to Franchisor pursuant to any agreement between Franchisor and Franchisee as well as to cover any purchases of goods or services from Franchisor or any affiliate of Franchisor. Franchisee agrees to be bound by the National Automated Clearing House Association (NACHA) rules in the administration of these debit entries. Debit entries will be initiated only as authorized above. This authorization is to remain in full force and effect until Franchisor has received written notification from Franchisee of its termination in such time and in such manner as to afford Franchisor and the Bank a reasonable opportunity to act on it. Franchisee shall notify Franchisor of any changes to any of the information contained in this authorization form at least 30 days before such change becomes effective.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_  
  
Federal Tax ID Number: \_\_\_\_\_

**NOTE: FRANCHISEE MUST ATTACH A VOIDED CHECK RELATING TO THE BANK ACCOUNT.**

## **EXHIBIT H-4**

### **WATERMILL EXPRESS FRANCHISE**

#### **SAMPLE APPROVAL OF REQUESTED ASSIGNMENT**

This Approval of Requested Assignment (“**Agreement**”) is entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, between Watermill Express Franchising, LLC (“**Franchisor**”), \_\_\_\_\_ (“**Former Franchisee**”) and \_\_\_\_\_ (“**New Franchisee**”).

#### **RECITALS**

WHEREAS, Franchisor and Former Franchisee entered into that certain franchise agreement dated \_\_\_\_\_, 20\_\_\_\_ (“**Franchise Agreement**”), in which Franchisor granted Former Franchisee the right to operate a Watermill Express franchise located at \_\_\_\_\_ (“**Franchised Business**”); and

WHEREAS, Former Franchisee desires to assign (“**Requested Assignment**”) the Franchised Business to New Franchisee, New Franchisee desires to accept the Requested Assignment of the Franchised Business from Former Franchisee, and Franchisor desires to approve the Requested Assignment of the Franchised Business from Former Franchisee to New Franchisee upon the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, promises, and agreements herein contained, the parties hereto hereby covenant, promise, and agree as follows:

1. Payment of Fees. In consideration for the Requested Assignment, Former Franchisee acknowledges and agrees to pay Franchisor the Transfer Fee, as required under the Franchise Agreement (“**Franchisor’s Assignment Fee**”).

2. Consent to Requested Assignment of Franchised Business. Franchisor hereby consents to the Requested Assignment of the Franchised Business from Former Franchisee to New Franchisee upon receipt of the Franchisor’s Assignment Fee from Former Franchisee and the mutual execution of this Agreement by all parties. Franchisor waives its right of first refusal set forth in the Franchise Agreement and waives any obligation for Former Franchisee to enter into a subordination agreement pursuant to the Franchise Agreement.

3. Termination of Rights to the Franchised Business. The parties acknowledge and agree that all of Former Franchisee’s rights to operate the Franchised Business and rights under the Franchise Agreement are hereby relinquished and that from the date of this Agreement only New Franchisee shall have the sole right to operate the Franchised Business. Former Franchisee and its owners agree to comply with all of the covenants in the Franchise Agreement that expressly or by implication survive the termination, expiration, or transfer of the Franchise Agreement. Unless otherwise precluded by state law, Former Franchisee shall execute Franchisor’s current form of General Release Agreement, which is attached to this Agreement as Attachment A.

4. New Franchise Agreement. New Franchisee shall execute Franchisor’s current form of Franchise Agreement and attachments for the Franchised Business (as amended by the form of Addendum

prescribed by Franchisor, if applicable), which is attached to this Agreement as Attachment B, and any other required contracts for the operation of a Watermill Express franchise as stated in Franchisor's Franchise Disclosure Document.

5. Franchisee's Contact Information. Former Franchisee agrees to keep Franchisor informed of its current address and telephone number at all times during the three (3) year period following the execution of this Agreement.

6. Acknowledgement by New Franchisee. New Franchisee acknowledges and agrees that the purchase of the rights to the Franchised Business ("**Transaction**") occurred solely between Former Franchisee and New Franchisee. New Franchisee also acknowledges and agrees that Franchisor played no role in the Transaction and that Franchisor's involvement was limited to the approval of Requested Assignment and any required actions regarding New Franchisee's signing of a new franchise agreement for the Franchised Business. New Franchisee agrees that any claims, disputes, or issues relating New Franchisee's acquisition of the Franchised Business from Franchisee are between New Franchisee and Franchisee, and shall not involve Franchisor.

7. Representation. Former Franchisee warrants and represents that it has not heretofore assigned, conveyed, or disposed of any interest in the Franchise Agreement or Franchised Business. Buyer hereby represents that it received Franchisor's Franchise Disclosure Document and did not sign the new Franchise Agreement or pay any money to Franchisor or its affiliate for a period of at least 14 calendar days after receipt of the Franchise Disclosure Document.

8. Notices. Any notices given under this Agreement shall be in writing, and if delivered by hand, or transmitted by U.S. certified mail, return receipt requested, postage prepaid, or via telegram or telefax, shall be deemed to have been given on the date so delivered or transmitted, if sent to the recipient at its address or telefax number appearing on the records of the sending party.

9. Further Actions. Former Franchisee and New Franchisee each agree to take such further actions as may be required to effectuate the terms and conditions of this Agreement, including any and all actions that may be required or contemplated by the Franchise Agreement.

10. Affiliates. When used in this Agreement, the term "**Affiliates**" has the meaning as given in Rule 144 under the Securities Act of 1933.

11. Miscellaneous. This Agreement may not be changed or modified except in a writing signed by all of the parties hereto. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same document. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns.

12. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Colorado.

*(Signatures on following page)*

**IN WITNESS WHEREOF**, the parties have executed this Agreement under seal, with the intent that this be a sealed instrument, as of the day and year first above written.

**FRANCHISOR:**

WATERMILL EXPRESS FRANCHISING, LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

**FORMER FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

**NEW FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Rev. 041714

**EXHIBIT H-4 Attachment A**

**(INSERT Termination and Release Agreement)**

**EXHIBIT H-4 Attachment B**

**(INSERT New Franchise Agreement to be Signed)**

**EXHIBIT I**

**FRANCHISE DISCLOSURE QUESTIONNAIRE**



## FRANCHISE DISCLOSURE QUESTIONNAIRE

As you know, Watermill Express Franchising, LLC (“**we**” or “**us**”), and you are preparing to enter into a Franchise Agreement for the operation of a Watermill Express Franchise. The purpose of this questionnaire is to determine whether any statements or promises were made to you that we have not authorized or that may be untrue, inaccurate, or misleading, to be certain that you have been properly represented in this transaction, and to be certain that you understand the limitations on claims you may make by reason of the purchase and operation of your Franchise. You cannot sign or date this questionnaire the same day as the Receipt for the Franchise Disclosure Document, but you must sign and date it the same day you sign the Franchise Agreement. Please review each of the following questions carefully and provide honest responses to each question. If you answer “**No**” to any of the questions below, please explain your answer in the table provided below.

1.      Yes\_\_\_ No\_\_\_      Have you received and personally reviewed the Franchise Agreement and each attachment or schedule attached to it?
2.      Yes\_\_\_ No\_\_\_      Have you received and personally reviewed the Franchise Disclosure Document we provided?
3.      Yes\_\_\_ No\_\_\_      Did you sign a receipt for the Franchise Disclosure Document indicating the date you received it?
4.      Yes\_\_\_ No\_\_\_      Do you understand all the information contained in the Franchise Disclosure Document and Franchise Agreement?
5.      Yes\_\_\_ No\_\_\_      Have you reviewed the Franchise Disclosure Document and Franchise Agreement with a lawyer, accountant, or other professional advisor, or have you had the opportunity for such review and chosen not to engage such professionals?
6.      Yes\_\_\_ No\_\_\_      Have you had the opportunity to discuss the benefits and risks of developing and operating a Watermill Express Franchise, if applicable, with an existing Watermill Express franchisee or Area Developer Franchise, if applicable?
7.      Yes\_\_\_ No\_\_\_      Do you understand the risks of developing and operating a Watermill Express Franchise or Area Developer Franchise, if applicable?
8.      Yes\_\_\_ No\_\_\_      Do you understand the success or failure of your Franchise will depend in large part upon your skills, abilities, and efforts, and those of the persons you employ, as well as many factors beyond your control such as competition, interest rates, the economy, inflation, labor and supply costs, and other relevant factors?
9.      Yes\_\_\_ No\_\_\_      Do you understand all disputes or claims you may have arising out of or relating to the Franchise Agreement must be litigated in Colorado, if not resolved informally or by mediation?
10.     Yes\_\_\_ No\_\_\_      Do you understand that you must satisfactorily complete the initial training course before we will allow your Watermill Express Franchise or Area Developer Franchise to open or consent to a transfer?

11. Yes\_\_\_ No\_\_\_ Do you agree that no employee or other person speaking on our behalf made any statement or promise regarding the costs involved in operating a Watermill Express Franchise, and Area Developer Franchise, if applicable, that is not contained in the Franchise Disclosure Document or that is contrary to, or different from, the information contained in the Franchise Disclosure Document?
12. Yes\_\_\_ No\_\_\_ Do you agree that no employee or other person speaking on our behalf made any statement or promise or agreement, other than those matters addressed in your Franchise Agreement concerning advertising, marketing, media support, marketing penetration, training, support service, or assistance that is contrary to, or different from, the information contained in the Franchise Disclosure Document?
13. Yes\_\_\_ No\_\_\_ Do you agree that no employee or other person speaking on our behalf made any statement or promise regarding the actual, average, or projected profits or earnings, the likelihood of success, the amount of money you may earn, or the total amount of revenue a Watermill Express Franchise or Area Developer Franchise, if applicable, will generate that is not contained in the Franchise Disclosure Document or that is contrary to, or different from, the information contained in the Franchise Disclosure Document?
14. Yes\_\_\_ No\_\_\_ Do you understand that the Franchise Agreement and attachments to the Franchise Agreement contain the entire agreement between us and you concerning the Franchise for the Watermill Express Station, meaning any prior oral or written statements not set out in the Franchise Agreement or the attachments to the Franchise Agreement or the attachments, if applicable, will not be binding?
15. Yes\_\_\_ No\_\_\_ Do you understand that we are relying on your answers to this questionnaire to ensure that the Franchise sale was made in compliance of state and federal laws?

YOU UNDERSTAND THAT YOUR ANSWERS ARE IMPORTANT TO US AND THAT WE WILL RELY ON THEM. BY SIGNING THIS QUESTIONNAIRE, YOU ARE REPRESENTING THAT YOU HAVE CONSIDERED EACH QUESTION CAREFULLY AND RESPONDED TRUTHFULLY TO THE ABOVE QUESTIONS.

\_\_\_\_\_  
Signature of Franchise Applicant

\_\_\_\_\_  
Signature of Franchise Applicant

\_\_\_\_\_  
Name (please print)

\_\_\_\_\_  
Name (please print)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

EXPLANATION OF ANY NEGATIVE RESPONSES (REFER TO QUESTION NUMBER):

Questionnaire Number	Explanation of Negative Response

**EXHIBIT J**

**RECEIPT**

**RECEIPT**  
**(Retain This Copy)**

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Watermill Express Franchising, LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

Under Iowa or Rhode Island law, if applicable, Watermill Express Franchising, LLC must provide this disclosure document to you at your first personal meeting to discuss the franchise. New York requires you to receive the Franchise Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires Watermill Express Franchising, LLC to give you this disclosure document at least ten (10) business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Watermill Express Franchising, LLC does not deliver this disclosure document on time or if it contains a false or misleading statement or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580, and the appropriate state agency identified on Exhibit A.

The name, principal business address, and telephone number of each franchise seller offering the franchise is:	
Lani Dolifka, 1177 South Fourth Avenue, Brighton, CO 80601	303-659-1573
Stanley J. Rosenbrock, 1177 South Fourth Avenue, Brighton, CO 80601	303-659-1573
Darin Whittington, 1177 South Fourth Avenue, Brighton, CO 80601	303-659-1573
Donald Dolifka, 1177 South Fourth Avenue, Brighton, CO 80601	303-659-1573
Lawrence J. Pollard, 1177 South Fourth Avenue, Brighton, CO 80601	303-659-1573

Issuance Date: April 26, 2019

I received a disclosure document issued April 26, 2019 which included the following exhibits:

Exhibit A	List of State Administrators and Agents for Service of Process
Exhibit B	Franchise Agreement
Exhibit C	Area Development Agreement
Exhibit D	Financial Statements
Exhibit E	List of Current and Former Franchisees/Developers
Exhibit F	State Addenda and Agreement Riders
Exhibit G	Franchise Operations Manual Table of Contents
Exhibit H	Contracts for use with the Watermill Express Franchise
Exhibit I	Franchise Disclosure Questionnaire
Exhibit J	Receipt

_____	_____	_____
Date	Signature	Printed Name

_____	_____	_____
Date	Signature	Printed Name

**PLEASE RETAIN THIS COPY FOR YOUR RECORDS.**

**RECEIPT  
(Our Copy)**

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Watermill Express Franchising, LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

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Exhibit I	Franchise Disclosure Questionnaire
Exhibit J	Receipt

_____	_____	_____
Date	Signature	Printed Name

_____	_____	_____
Date	Signature	Printed Name

**Please sign this copy of the receipt, date your signature, and return it to Watermill Express Franchising, LLC, 1177 South Fourth Avenue, Brighton, CO 80601.**